FINANCIAL TIMES

World Business Newspaper

MONDAY MAY 20 1996

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Yeltsin pledges to face Chechnya death threat

Planned trip seen as electioneering ■ Leader steps up call for anti-communist coalition

By Chrystia Freeland in Moscow

President Boris Yeltsin yesterday vowed to go ahead with a trip to Chechnya in spite of an alleged plan by separatist fighters to kill the Russian leader if he ventures into their republic.

Mr Yeltsin made the pledge in an apparent bid to win the sympathies of Russian voters before the June 16 presidential ballot.

The Russian leader who, according to some opinion polls has now pulled ahead of his communist rival, also stepped up his call for other democratic politicians to join him in a broad, anti-communist coalition. "I know that an assassination attempt has been planned against me but I will go to Chechnya because peace must be established there," Mr Yeltsin told a campaign rally in the Siberian city of Omsk.

"I have been flooded with telegrams and telephone calls urging me not to go. But I believe that only I could sit the sides down at the conference table," he said.

Over the weekend, Chechen commanders said they would not try to attack Mr Yeltsin, but warned that individual Chechens might seek to assassinate him to avenge the killing last month of Mr Dzhokhar Dudayev, the first leader of the Chechen bid for independence.

"I am not going to guarantee anything," Mr Zelimkhan Yandarbiyev, the new separatist leader, told Russian television. "As for the right or wish . . . of any Chechen to avenge his president's murder, that right no one may take away or delegate. This right is a matter of honour for any honest Chechen." If Mr Yeltsin does keep his promise and travel to Chechnya, analysts believe that the trip is likely to be a pure piece of campaigning, with little impact on the war which has been raging in the region for 17 months.

For security reasons, Mr Yeltsin's visit to Chechnya would probably be confined to Grozny's airport, which serves as headquarters for the Russian military and the Russian-installed local government. Russian commanders and pro-Russian government officials rarely venture outside the fortified compound for fear of being ambushed.

On the campaign trail, Mr Yeltsin redoubled his efforts to unite Russian democrats into a single anti-communist bloc.

He hinted that he might reshuffle his government – an apparent attempt to win over Mr Grigory Yavlinsky, the strongest democratic presidential candidate outside the government. One of Mr Yavlinsky's conditions for forming an alliance with the president has been that Mr Yeltsin sack several ministers, including the prime minister.

Democratic Choice of Russia, led by Mr Yegor Gaidar, a former prime minister, threw its support behind Mr Yeltsin at a weekend congress. Although the party was once Russia's most powerful democratic force, it polled less than 5 per cent in parliamentary elections last December.

Tarnished hero, Page 2

Karadzic 'losing grip' on power in Bosnia

By Laura Silber, Balkans Correspondent

Mr Carl Bildt, the international peace envoy to Bosnia, yesterday said he believed Mr Radovan Karadzic, the Bosnian Serb leader, was losing his grip on power after he agreed to relinquish significant authority on political, constitutional and other powers to his deputy, Mrs Biljana Plavsic.

Mr Bildt, the international high representative in charge of implementing the civilian side of the Dayton peace agreement, said: "I have been promised by Bosnian Serb leaders that Mr Karadzic will disappear from public life and not be seen or heard from again." After marathon talks in Pale, Mr Karadzic's stronghold above Sarajevo, Mr Bildt said: "Other Bosnian Serb leaders, all hardliners, said that they believed this was the end for Mr Karadzic."

As a person indicted by the international tribunal in The Hague on charges of being a war criminal, Mr Karadzic cannot hold office after elections to be held this autumn. However, given previous twists in Serb politics, the weekend development may be another manoeuvre by Mr Karadzic to try to continue pulling the strings from behind the scenes while at the same time seeming to respond to international pressure.

The results of a late-night session of the Bosnian Serb assembly on Saturday suggest that Mr Karadzic may still retain a grip on power as deputies unanimously confirmed the replacement of his rival, Mr Rajko Kasagic, as Bosnian Serb prime minister, by Mr Gojko Klickovic, who is a close ally.

Mr Kasagic, who runs an alternative Bosnian Serb capital from the north-western town of Banja Luka, is backed by President Slobodan Milosevic of Serbia. His willingness to co-operate with Bosnian Moslems and Croats in implementing the Dayton peace agreement has also won him international support.

The reshuffle in the Bosnian Serb leadership is the latest turn in a power struggle between Mr Milosevic and Mr Karadzic. The Serbian president has come under increasing international pressure to oust Mr Karadzic. Yesterday's announcement comes after the Serbian president in talks on Saturday night with Mr Bildt in Belgrade insisted Mr Karadzic was "finished".

Mrs Plavsic, Bosnian Serb vice-president, wields little power and is an even more hardline nationalist than the Bosnian Serb leader. She has consistently opposed co-operating with her Bosnian Moslem and Croat foes and the international community, and at the weekend said she would give priority to implementing the Dayton agreement, but on Bosnian Serb terms.

Meanwhile Mr Karadzic said he would devote more of his time to helping refugees and finding jobs for demobilised soldiers, starting the economy, and rebuilding his mini-state.

'Karadzic link' probed, Page 6

Taiwan's president Lee Teng-hui waves to onlookers yesterday after inspecting guards of honour as part of preparations for his inauguration today. In his inaugural speech, Mr Lee will offer to visit China on a "journey of peace" to meet mainland officials, in a gesture designed to defuse tensions with Beijing. Report, Page 4; Ginseng leaves nasty taste, Page 16 Picture: Reuter

OECD will seek higher profile on trade promotion

By Gillian Tett and Guy de Jonquieres in London

The Organisation for Economic Co-operation and Development is to seek a more assertive role on the world stage by promoting international trade and investment – a move which could set it at odds with developing nations.

Mr Donald Johnston, the former Canadian finance minister who next month becomes the new OECD leader, will also forge closer links with the World Trade Organisation by offering to conduct research to support the work of the trade body.

Mr Johnston's suggestion is likely to provoke opposition from developing countries, which are excluded from membership of the OECD. They fear that using the OECD's resources to conduct WTO research would marginalise them from trade debates.

And it could irritate the WTO too. One trade diplomat in Geneva said: "Any suggestion that the OECD should become some kind of think-tank for the WTO is not the kind of statement we would be pleased with. It's much too strong and one-sided."

Their unease is likely to be all the greater because Mr Johnston was strongly supported for his new job by the US. The US, together with countries such as the UK, strongly support his activist agenda.

"We will supply whatever brains Mr Renato Ruggiero [the WTO director-general] wants. The OECD is a resource," Mr Johnston said.

The plans potentially represent a significant shift for the Paris-based body, which starts its meeting of ministers in Paris today. It currently acts as a think-tank, meeting point and negotiator for 27 of the world's industrialised nations,

Mr Johnston's proposals could also help to fill a gap at the WTO, where Mr Ruggiero has been been seeking unsuccessfully to persuade member governments to approve funding for an increase in the institution's modest research facilities.

Poorer countries, however, fear that the OECD's agenda does not necessarily reflect their interests. They have been particularly concerned by the US-led initiative to negotiate in the OECD a multilateral agreement on investment which will be a central focus for debate at the meeting of ministers this week.

Developing countries also fear that after the agreement is concluded next year, industrialised countries may seek to impose it on the WTO.

The sensitivity of developing countries underscores the difficulties that will dog Mr Johnston as he takes over from his predecessor, Mr Jean Claude Paye.

Mr Johnston recognises that the issue of trade between the OECD and non-OECD countries is crucial for his members.

London exchange steps up offensive on insider dealing

By John Gapper in London

The London Stock Exchange is about to start using artificial intelligence techniques to identify insider trading and the manipulation of share prices in the City of London.

The exchange is installing software that will analyse all data on share trading in the London market from this August, and identify any patterns that indicate shares are being bought and sold by insider trading rings.

The exchange believes it will be the first in the world to use technology capable of identifying the most sophisticated form of insider trading – the sharing of secret information about future deals among professionals.

The software, which will cost up to £500,000 ($760,000), was developed for the exchange by doctoral students in the computer science department of University College, London. It combines several forms of artificial intelligence to scan market data. In a pilot project 18 months ago, the software surprised exchange officials by picking up one example of an apparent insider trader ring of 14 people dealing in one company's securities.

The move is part of an effort to strengthen the exchange's defences against market manipulation. It is also planning to bring in 24-hour "halts" in trading of a company's shares if there is an unexplained move in a share price. The exchange plans to run market data through the software, and set it to alert analysts to any suspicious patterns daily.

Cases that appear to merit further inquiries will be looked into by staff from its investigations department. The software is being supplied by a company set up by a group of former UCL students called Searchspace.

It is known as a "hybrid intelligence" system because it combines neural networks, fuzzy logic and genetic algorithms, which replicate human thought patterns at high speed.

Mr Richard Kilsby, director of market services at the LSE, said he hoped the technique would enable the exchange to pin down subtle forms of market manipulation used by professionals such as brokers and advisers.

Other exchanges, including the New York Stock Exchange, use software to analyse a large amount of trading data. However, the exchange believes it will be employing the most advanced techniques in the world.

Last year, the London Stock Exchange investigated 1,500 cases of unusual and suspicious trading patterns. However, only 43 cases were referred to other regulators, including the Department of Trade and Industry, and the Serious Fraud Office.

Exchange to cut costs, Page 6

Groups unveil plans to cut the cost of personal computing

A consortium of more than 50 companies will today announce plans for network computers, a new category of machine designed to cut the cost of personal computing by using software and data stored elsewhere via the Internet or a corporate network. The consortium, led by Oracle, the largest database software company, will endorse standards, demonstrate prototypes and announce production and marketing plans. Page 17; Lex, Page 16; PC sales growth slows, Page 2

EU experts look at 'mad cow' curbs: The veterinary committee of the European Union today resumes discussion of a proposal by Franz Fischler, the EU commissioner for agriculture, under which Britain would impose tighter controls on production of gelatine and tallow as a precondition to export bans on these products being lifted. Page 6

Employers' chief attacks EU jobs plan: The head of the European Union employers' federation has attacked efforts to achieve a pact between trade unions and employers to fight joblessness in the EU. Page 16; Personal View, Page 14

GM set for UK rail order: Wisconsin Central Transportation, the US company which has acquired the UK state rail network's heavy haul freight activities, is expected to place an order for up to 250 new locomotives costing £250m ($380m) with General Motors of the US. Page 6

N American Lloyd's Names: Senior figures from Lloyd's of London will this week launch a big effort in north America to persuade Names – who support underwriting at Lloyd's by pledging their personal wealth – to back the 300-year-old insurance market's recovery plan. Page 6

Slowdown in drug sales: Drug sales in the world's biggest markets slowed sharply in February, hurt by lower than usual seasonal levels of influenza and destocking in Japan. Page 3

WHO warns of infections 'crisis': The World Health Organisation today issues its most urgent warning yet of an impending "global crisis" in infectious diseases. The WHO estimates that a growing number of people are dying from viruses, bacteria and parasites, as old diseases, such as tuberculosis, make a comeback. Page 5

Alitalia unions to discuss restructuring: Unions at Alitalia will meet the airline's chief executive today to discuss a restructuring plan involving nearly 3,000 redundancies over five years. Page 2; US and UK in air access talks, Page 3

US technique for UK pension fund: John Lewis Partnership Trust for Pensions, the £600m ($912m) pension scheme for the retail chain's employees, is one of the first leading UK pension funds to appoint a US-style tactical asset allocation manager. It has appointed First Quadrant, a US-owned fund manager to decide its mix of assets. Page 17

Football violence video attacked: The English Football Association has attacked the release today of a commercial video, *Hooligan 96*, warning of possible crowd violence at next month's Euro 96 football championship, in England. Page 16

China cracks down: China has ordered police to crack down on separatist "terrorists" in its restive Tibet and Xinjiang regions.

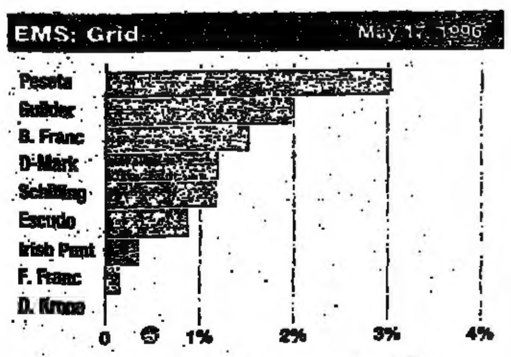
Milan magistrates' confiscation: Milan anti-corruption magistrates took boxes of documents and computer discs from the Rome office and apartment of a lawyer arrested on Friday for involvement in the alleged payment of a L67bn (£28.35m) bribe to influence the outcome of a record L1,000bn court settlement. Page 2

Bangkok takes over bank: Thai financial authorities have taken took over the Bangkok Bank of Commerce (BBoC), a mid-size commercial bank, citing the institution's "critical" condition in the wake of financial mismanagement and alleged fraud. Page 4

First grand prix win for Panis: Olivier Panis of France, driving a Ligier-Mugen-Honda, won the Monaco grand prix, his first victory in 39 grand prix races. Defending champion Michael Schumacher crashed on the first lap. Britain's Damon Hill went out after 40 laps of the 75-lap race when his engine failed. Hill leads the drivers' standings with 43 points, 19 ahead of Jacques Villeneuve.

European Monetary System: There was no change to the order of currencies in the EMS grid last week. The spread between strongest and weakest currencies was also little changed. All the ERM currencies are currently within the old 2¼ per cent fluctuation bands against the D-Mark central rates. Currencies, Page 31

EMS: Grid May 17, 1996



The chart shows the member currencies of the exchange rate mechanism measured against the weakest currency in the system. Most of the currencies are permitted to fluctuate within 15 per cent of agreed central rates against the other members of the mechanism. The exceptions are the D-Mark and the guilder which move in a 2.25 per cent band.

Albania	LEK 220	Germany	DM4.00	Lithuania	Lis 15.00	Qatar	QR13.00
Austria	Sch37	Greece	Dr400	Lux	LFr75	S.Arabia	SR12
Bahrain	Din1.250	Hong Kong	HK$20	Malta	Lm0.65	Singapore	S$4.30
Belgium	BFr75	Hungary	Ft230	Morocco	MDh16	Slovak Rp	Sk65
Bulgaria	Lw130.00	Iceland	IKr230	Neth	Fl 4.75	S. Africa	R12.00
Cyprus	C£1.20	India	Rs75	Nigeria	Naira80	Spain	Pta250
Czech Rp	Kc60	Israel	Shk7.50	Norway	NKr20.00	Sweden	SKr20
Denmark	DKr18	Italy	L3200	Oman	OR1.50	Switz	SFr3.70
Egypt	E£5.00	Japan	Y500	Pakistan	Rs40	Syria	S£65.00
Estonia	Ekr 22	Jordan	JD1.50	Poland	Zl 5.50	Tunisia	Din1.750
Finland	FM15.50	Kuwait	Fils.650	Portugal (m'land)		Turkey	L80,000
France	FFr11.50	Lebanon	LL3,000		Es240	UAE	Dh12.00

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Unions threaten to ground Alitalia plan

The country's government could be heading for an early test of nerve, writes Andrew Hill

The mettle of Mr Romano Prodi's new centre-left government may be tested almost immediately over the restructuring plan for Alitalia, Italy's troubled state airline.

Today, the unions will meet Mr Domenico Cempella, Alitalia's chief executive since February, for the first serious discussion of a plan involving nearly 3,000 redundancies over the next five years.

The proposals were presented on Thursday and the initial union reaction was negative, but subdued. The pilots' unions, which caused serious disruption last year when they objected to an earlier plan, warned that the attempt to improve productivity could jeopardise safety. Another transport union said reorganisation of the group into several new subsidiaries would be accepted "by none of the unions".

Mr Cempella's problem is that he has little time, and less money. The airline ran up losses of L280bn ($180m) in the first quarter of this year, and had debts of L3,420bn at the end of 1995, against net equity of L422bn. The new management's analysis of the situation lists only three strong points for the airline: the great potential of the market; the high level of know-how among personnel; and the "solid attractions of the company brand, notwithstanding the perceived low quality of the service".

Alitalia's costs, particularly its labour costs, are "uncompetitive with the major international carriers". Domestic competition has already obliged the airline to raise its standards and lower its prices on internal flights such as Milan-Rome, which used to be one of the most lucrative routes. Liberalisation will bring even sharper competition.

To meet it, Mr Cempella intends to form two new subsidiaries, one handling long-haul, the other medium-range passenger services, and bring salaries, working conditions and costs in each company into line with those of their direct competitors. Similar restructuring is going on at Air France, which has also been forced to meet to growing competition – and see off strong union protests.

Some analysts believe Alitalia's plan is softer on the unions than the bare figures suggest. Mr Cempella will seek just over 2,800 redundancies. Many of them will be achieved through incentives and early retirement. Furthermore, in the plan's second "development" phase in particular – between 1998 and 2000 – the company will also hire new staff, albeit on lower salaries and different conditions than at present, sweetening the pill with the offer of warrants to buy shares in the airline. The net reduction in the workforce between now and 2000 will be just under 1,400.

The principal difference between Mr Cempella's programme and that of Mr Roberto Schisano, his predecessor, and Mr Renato Riverso, who resigned as chairman earlier this year, is that the new management wants a capital increase first.

The state holding company Iri, which owns nearly 90 per cent of Alitalia, has said it is prepared to provide L1,500bn "before the summer" and Mr Cempella wants a further L1,500bn by the end of the year. Non-core holdings, possibly including Alitalia's stake in the Hungarian airline Malev, are being earmarked for sale.

Iri wants to involve private investors in the recapitalisation, partly because it has its own debt problem to deal with, and says its medium-term objective is to reduce its stake in the carrier to below 50 per cent. But sector analysts say that it may have missed its chance to convince institutions or industrial investors to help Alitalia when Mr Riverso resigned earlier this year.

The size of the proposed capital injection is also much larger than Mr Schisano and Mr Riverso were considering. It is bound to attract the attention of the European Commission, which vets state aid for airlines. Recent precedents may give Alitalia cause for cautious optimism. For example, Mr Neil Kinnock, the EU transport commissioner, approved the latest injection of new capital at Iberia, the troubled Spanish carrier, with only minor amendments.

However, one former airline executive pointed out last week that "from the point of view of routes and services there is hardly any restructuring, so Brussels will be cautious even if it is inclined to help Alitalia".

For Mr Cempella, the international reach of Alitalia cannot be called into question. Indeed, he wants to develop the airline's intercontinental connections, particularly in the Far East, and build Milan's Malpensa airport into Alitalia's north European hub.

To reach the development phase of the plan, Alitalia needs the co-operation of its workforce and of Brussels almost immediately. Some Italian industry observers believe the unions may have agreed already to go along with Mr Cempella's strategy, in spite of their muttered doubts about the restructuring.

If they have, that may indicate that the plan is not rigorous enough to prepare the airline for heavy competition. If they have not, Mr Prodi's new transport minister, the shrewd former mayor of Genoa, Mr Claudio Burlando, may be in for a hot summer.

Probe of Deutsche Telekom discounts

By Michael Lindemann in Bonn

Germany's post and telecoms minister, Mr Wolfgang Bötsch, faces an embarrassing setback this week when discounts he approved for Deutsche Telekom, the state-owned operator, are to be questioned by the European Commission.

A delay on the discounts also represents a blow for Deutsche Telekom's DM15bn ($9.8bn) share issue, scheduled for November.

Ministry officials said a letter was expected today from Mr Alexander Schaub, a senior official at the Commission, telling Mr Bötsch that the corporate discounts for Deutsche Telekom could only come into force on January 1, 1997.

The minister had told Deutsche Telekom in March that the discounts, which the company insists are a big part of its plan to prepare for full-scale liberalisation after 1998, could be introduced retrospectively on January 1 this year.

At the time Mr Bötsch said he saw no reason why the Commission should challenge the discounts which offer Deutsche Telekom's biggest corporate clients up to 39 per cent off their phone bills.

Deutsche Telekom has warned it must go ahead with the discounts or clients will turn to the competition.

It remained unclear last night how Mr Bötsch would react. Ministry officials said the letter represented "an attack" on the way Germany set its own tariffs.

However, Mr Bötsch faces the threat of legal action from the Commission unless he changes his position, something that will require the approval of the 32-strong regulatory council which, together with the minister, regulates the German telecoms market.

"I expect we will say something this week," a ministry official said. "We've been postponing a decision on this issue for weeks as it is."

The controversy about the corporate discounts, which has been dragging on for about six months now, is one of a number of problems where Mr Bötsch has been accused of doing too little to foster competition in Germany.

Deutsche Telekom's competitors, grouped together in an association called VTM, say the minister has been too slow to push through new charges, setting out the cost of jumping between different telecoms networks, and a new telephone numbering scheme.

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Prodi juggles with party pressures

By Robert Graham in Rome

The new Italian cabinet follows the principle of age before beauty. It is one of the most experienced since the second world war – numbering nine economists along with the premier, Mr Romano Prodi – but one of the least photogenic.

The 20-strong team includes two former prime ministers, Mr Carlo Azeglio Ciampi and Mr Lamberto Dini; and every key portfolio is held by someone with a recognisably safe pair of hands.

The cabinet is larger than Mr Prodi would have liked, but the conflicting demands of five main groups have had to be accommodated. Given the problems in balancing the sensibilities of all the allies in the centre-left Olive Tree alliance, the distribution of ministries represents a well-constructed balance of political power.

No group will be able to exert too much influence. The Party of the Democratic Left (PDS), by far the largest, may even come to regret that, at its first opportunity of governing, it has allowed the government's centre of gravity and ideological complexion to shift away from the left.

Considering Mr Prodi has no real political base, he has managed to surround himself with more of his own men than at first seemed possible. He argued hard that voters had endorsed him as premier at the polls, and he fought off demands by Mr Massimo D'Alema, the PDS leader, for his closest adviser, Mr Claudio Burlando, to run the prime minister's office.

It was Mr Prodi's idea to recruit the political novice Mr Antonio Di Pietro, the former Milan anti-corruption magistrate, to the public works ministry in the face of reservations by the PDS.

The cabinet was built up around decisions taken on filling the three key ministries of foreign affairs, treasury and interior. Mr Dini had to be rewarded with a big job. He has been given the foreign ministry because of its relative autonomy and because it keeps him at a distance from mainstream government where old antagonisms with Mr Ciampi prevail.

Mr Ciampi himself was persuaded to return from semi-retirement to run the treasury and the budget ministry. His unrivalled prestige and economic experience will be vital for putting Italy's public finances in order, tackling privatisation and the unions.

He will also act as a counterweight to the presence of Mr Dini, who fought hard to have two ministers from his Italian Renewal party. Mr Tiziano Treu is the only outgoing minister to keep his post (labour), while Mr Dini's close friend Mr Augusto Fantozzi has been switched from finance to the lesser foreign trade portfolio.

The interior ministry was earmarked by the PDS for Mr Giorgio Napolitanoa former Communist foreign affairs expert, an ex-speaker of the chamber of deputies and the party's elder statesman.

Though the appointment of a former Communist encountered some opposition, the PDS insisted on this senior ministry going to the person of their choice. The party also succeeded in having its economic spokesman, Mr Vincenzo Visco, appointed to the finance ministry. Mr Visco was pulled out of the Ciampi government in 1993 hours before he was due to be sworn in because the PDS preferred not to be compromised by joining the administration.

Having achieved this much, the PDS made little resistance to the defence portfolio going to Mr Beniamino Andreatta of the Popular party. He is a prominent economist and former foreign and treasury minister.

As deputy premier, Mr Prodi appointed Mr Walter Veltroni, number two in the PDS who helped forge the Olive Tree alliance. A former editor of L'Unità, the PDS daily, Mr Veltroni is a political rival of Mr D'Alema and espouses the kind of moderate views endorsed by the British Labour party leader, Mr Tony Blair.

Mr Veltroni worked well with Mr Prodi during the election campaign and should be a useful foil to the demands of Mr D'Alema, who will be seeking to orchestrate the government from the sidelines, representing as he does the PDS, the principal shareholder in its success.

St Petersburg votes for mayor

Tarnished hero Sobchak seeks second chance

By John Thornhill in St Petersburg

Mrs Irina Lapteva set out to vote yesterday morning in the mayoral elections in the heart of St Petersburg, in what has been billed as a dress-rehearsal for next month's presidential vote.

The sprightly, middle-aged bank clerk did not know whom she would vote for; but she was certain whom she would not – the incumbent Mr Anatoly Sobchak, who was elected five years ago on the same day Mr Boris Yeltsin became president of Russia.

"In my experience it does not matter who is in power in this country. It is always bad," she said. "What has Sobchak done? The answer is nothing. At least we should give someone else a chance."

The urbane Mr Sobchak, a former law professor, became a hero of Russia's democratic revolution when he helped foil the hardline Communist coup of August 1991.

Like Mr Yeltsin in those exciting days, Mr Sobchak promised a new chapter of open, democratic government, in a country grown weary of authoritarian ways. He vowed to turn Russia's second city into a free economic zone, stimulating a wave of foreign investment and allowing capitalism to flourish.

But that euphoria seems to have drained away into the canals that criss-cross the former capital of the Tsars.

Mr Sobchak's opponents argue he has failed to deliver his promises, and has allowed corruption to corrode his administration. They say he is out of touch with ordinary Peterburzhtsi.

"There is no sense having beautiful programmes if there is no guarantee they will be realised," says Mr Yuri Boldyrev, a maverick radical and probably Mr Sobchak's chief rival. "This city needs a strong responsible authority."

Mr Vladmir Yakovlev, the first deputy mayor, who broke with Mr Sobchak to run as an independent, agrees. "St Petersburg no longer needs orators. It needs people who can solve concrete problems." Voters, however, have been sceptical of Mr Yakolev's claims to be the "can-do" candidate, given that he has been responsible for running the city's housing, transport and infrastructure for the past three years.

With a nod to voters' disenchantment, Mr Sobchak stresses his practical accomplishments in the campaign leaflets handed out at every metro stop. In the past five years, he claims, the city has laid 93.78km of new sewerage pipes, and plants 1.5m flowers and 70,000 trees and bushes every year.

Outgoing mayor Anatoly Sobchak is stressing his practical achievements to a disillusioned electorate Trevor Humphries

With some statistical justification, he argues that the city's economy has finally stabilised, and will soon grow. "Peterburzhtsi have worked for reforms for five years. Now reforms will work for you."

A fair number of voters seem willing to forgive Mr Sobchak. "You cannot really blame it all on him. Times have been tough and that creates a problem for any leader," said Mr Gennady Goryachev, a 53-year-old mathematician turned taxi-driver. "The reliability of a car depends on the reliability of its parts. And Sobchak does not have a reliable administration," he said, waving his arms to illustrate his points and swerving to avoid the road's many potholes.

Other voters seemingly crave stability above all else, swallowing any other qualms. "Sobchak's lot have stolen their fill," said one denim-clad young man outside polling booth 1157 in central St Petersburg. "But if we elect someone new, they will steal from us all over again."

The last opinion polls suggested Mr Sobchak would win 30 per cent of the vote, compared to less than 10 per cent each for his main rivals.

If that turns out to be the case, Mr Sobchak will have to fight a second round against his leading challenger within 30 days. That would be a blow to the prestige of a man who received two-thirds of the vote in 1991.

Loan will help ease Bulgaria job losses

By Theodore Troev in Sofia

The World Bank has pledged a $90m "safety net" loan to Bulgaria, to pay compensation to workers in state enterprises who will lose their jobs as the country comes to terms with economic reforms.

A bank team is expected to arrive in the capital, Sofia, today to discuss structural reform and funding, at the start of a crucial week for Bulgaria. Last week, the Socialist government of Mr Zhan Videnov announced the closure of some loss-making enterprises and banks, in an attempt to reach agreement with the World Bank and the International Monetary Fund.

The World Bank group is expected to remain in Bulgaria for two weeks both to meet the government and an IMF mission which has been in Sofia for the past 10 days, urging Mr Videnov's government to step up its reform programme. Mr Videnov met Mrs Ann McGuirk, the IMF mission leader, at the weekend.

Yesterday, Mr Rumen Gechev, the Bulgarian deputy prime minister and economics minister, said he was confident that funding agreements with the IMF and the World Bank could be reached soon.

The bank's loan, notified in a letter to the Bulgarian cabinet, is to cover six months' pay for the 25,000 workers expected to be made redundant with the shutdown of the loss-making state enterprises, and to fund retraining.

Apart from the closure of the 64 companies – whose combined losses last year represented 29 per cent of all losses by state enterprises – Bulgaria is taking its first steps to restructure the country's heavily indebted banking system. The central bank on Friday placed two commercial banks under strict supervision in a move expected to lead to their liquidation.

Parliament is expected tomorrow to approve an urgent bill to protect individuals' deposits at the banks to be closed. Under the scheme, citizens' deposits will be fully protected, while those of companies will be guaranteed up to 50 per cent of their value. Deposits of financial institutions will not be guaranteed at all because, according to Mr Videnov, financial institutions "should be better informed and should not make such mistakes".

PC sales growth slows in Europe

By Paul Taylor

European personal computer sales grew by only 12.8 per cent in the first quarter compared with a year earlier, according to the market research firm Dataquest.

Its figures show 3.98m PCs were sold, confirming a marked slowing in the rate of growth in the wake of the overheated fourth quarter last year, when 4.78m were sold.

Also, while Germany remained Europe's biggest PC market with 926,000 units shipped in the three-month period, growth was a lacklustre 8.9 per cent, only slightly ahead of France's 8.7 per cent. By contrast, year-on-year growth topped 20 per cent in Denmark, the Netherlands and Britain. In the latter country, Europe's second biggest market, PC sales went up 20.7 per cent to 866,200.

EUROPEAN PERSONAL COMPUTER SHIPMENTS
First Quarter 1996 ('000s of Units)

Rank	Vendor	Q1/95	Q1/96	Growth (%)*
1	Compaq	447.7	490.9	9.7
2	IBM	299.8	395.9	32.0
3	Siemens Nixdorf	156.6	215.5	37.6
4	Hewlett-Packard	160.0	212.7	32.9
5	Dell	132.8	178.1	34.1
6	Apple	231.4	174.2	-24.7
7	Escom	120.3	142.1	18.1
8	Olivetti	107.3	140.0	30.5
9	Toshiba	90.7	126.5	39.5
10	Vobis	164.5	116.9	-28.9

* Growth, first quarter 1996 over first quarter 1995 Source: Dataquest (May 1996)

The figures highlight the changing fortunes of some of the leading manufacturers, and the market's growing consolidation. Among the top five, IBM, Siemens Nixdorf, Hewlett Packard and Dell Computer all made substantial advances, with year-on-year gains exceeding 30 per cent.

Siemens Nixdorf sales grew by almost 38 per cent, making the German group the fastest growing European PC vendor and helping the restructured company move up from sixth to third place in the sales league table with a 5.4 per cent market share.

Analysed by PC type, Compaq strengthened its grip over the market for PC servers, which are used for running networks. It accounted for more than a quarter of all such sales in the three months. The four leading PC server vendors – Compaq, Hewlett-Packard, Siemens Nixdorf and IBM – together account for almost 60 per cent of sales in Europe.

Some 500,000 portable PCs were sold, or about one in every eight PC sales in Europe. Toshiba continues to dominate the portable market

INTERNATIONAL NEWS DIGEST

Bribes claim raid in Italy

Milan anti-corruption magistrates took away boxes of documents and computer disks from the Rome office and apartments of a lawyer arrested on Friday for involvement in the alleged payment of a L67bn ($43m) bribe to influence the outcome of a record L1,000bn court settlement. The lawyer, Mr Giovanni Acampora, was arrested while interviewing a client in Milan's San Vittore jail – a move likely to provoke renewed protests from Italy's rightwing opposition, led by former premier Mr Silvio Berlusconi.

The alleged bribe concerned the settlement of a 12-year court battle which pitted the Imi banking group against the heirs of Mr Nino Rovelli, whose state-subsidised petrochemical business collapsed in the late 1970s. The heirs brought a damages claim against Imi, then state-owned, for the consequences of failing to honour a L500bn loan. In 1994, the Rome supreme court ruled that Imi should pay L980bn. After deducting tax, Imi handed over L678bn to Mr Rovelli's widow and four children, the biggest pay-out to individuals in Italian legal history.

According to the warrant for Mr Acampora, the Rovelli heirs agreed to pay L67bn to win the case. Mr Acampora and two other Rome lawyers are alleged to have arranged for the transfer of these monies. *Robert Graham, Rome*

Caribbean poll campaign death

Political tensions have heightened in the Dominican Republic at the start of the campaign for a second round of voting in six weeks' time to elect a president, following an inconclusive vote last Thursday. One man was killed at the weekend and another injured in a clash between Revolutionary and Liberation party supporters outside Santiago, the country's second largest city.

Mr Jose Francisco Pena Gomez, the candidate of the social democrat Revolutionary party, won 45 per cent of the votes, according to preliminary results. In the run-off he will face Mr Leonel Fernandez of the centrist Liberation party, who received 37 per cent. The campaign for the second round "will be intense and is likely to be violent", government officials said yesterday.

The winner of the second round will succeed Mr Joaquin Balaguer who has dominated the Caribbean nation's politics for 30 years. Mr Balaguer was forced to terminate his current seventh term following allegations that he won the 1994 election by fraud. *Canute James, Santo Domingo*

Yilmaz takes Germany to task

Mr Mesut Yilmaz, Turkey's prime minister, warned at the weekend that the 2m Turks living in Germany were being discriminated against by the German authorities. Ending a three-day official visit to Germany, Mr Yilmaz told a meeting of Turkish businessmen and academics representing Germany's largest ethnic community, that "even existing agreements were not being observed".

"Whoever has a residence and working permit should really be treated exactly as a German is, but I have evidence in my hand that that is not what is happening," he said. It was more difficult for Turkish lawyers or dentists to set themselves up in Germany, and Turkish children were being discriminated against when it came to handing out kindergarten places, Mr Yilmaz said. *Michael Lindemann, Bonn*

■ Turkey's President Süleyman Demirel escaped unharmed an assassination attempt on Saturday in the Turkish city of Izmit.

Russia writes off Ukraine debt

Russia will write off $450m in outstanding Ukrainian debt to compensate Kiev for giving up its tactical nuclear weapons after the USSR's collapse, Ukrainian agencies reported at the weekend. The deal, if implemented, settles the last outstanding question stemming from Ukraine's decision to transfer to Russia the strategic and tactical nuclear arsenal it inherited from the Soviet Union.

Although Ukraine later settled on a $1bn scheme for its 1,800 strategic warheads, Kiev sent its arsenal of short-range tactical weapons in 1992 without settling compensation terms. President Leonid Kuchma brokered the deal with Mr Victor Chernomyrdin, the Russian prime minister, during negotiations following the Commonwealth of Independent States summit in Moscow on Friday. Russia apparently agreed to the scheme after Mr Kuchma joined the other CIS presidents in endorsing Mr Boris Yeltsin's presidential re-election bid.

Mr Kuchma and Mr Chernomyrdin made no progress, however, on dividing the Black Sea Fleet, the Interfax-Ukraine news agency reported. Ukraine also refused to sign CIS agreements intended to create a common border among the 12 member states. *Matthew Kaminski, Kiev*

Poland set to join OECD

Poland is to be asked to join the Organisation for Economic Co-operation and Development soon, Mr Grzegorz Kolodko, the finance minister, said yesterday. He was speaking after a meeting with Mr Christian Schricke, the OECD's main negotiator with Poland.

Mr Kolodko said that the invitation would come on July 11 or 12 for membership in the autumn and that Poland had fulfilled all the necessary criteria for membership save provisions for fiscal control and banking secrecy, which would be brought in soon.

Poland has promised that applications by foreigners for property purchases will be processed within 30 days. Liberalisation of rules in this area was the last barrier to OECD membership. The Paris-based club of industrial countries is also satisfied that Poland's controls on capital flows and foreign investment have been sufficiently liberalised to permit membership. *Christopher Bobinski, Warsaw*

Recovery under way in Mexico

Mexico has notched up better than expected growth figures for the beginning of the year, a sign that recovery is now under way in parts of the economy. Gross domestic product declined 1 per cent in the first quarter compared to the same period in 1995, a figure far better than market expectations of closer to a fall of 2.5 per cent. "Private investment is recovering but consumption is lagging," said Mr Héctor Chávez, chief economist at Santander Investments in Mexico City. "But it is clear the recovery is going ahead."

Boosted by increased foreign trade, the country's industrial sector grew 2.4 per cent in the period, while services, battered by recession, contracted by 3.2 per cent.

In preliminary figures for April, Mexico marked up a trade surplus of $731m, the highest level for seven months, despite recent falls in commodity prices and an appreciation of the peso. Exports reached $7.9bn, a 34 per cent increase on a year before. *Daniel Dombey, Mexico City*

German parties agree coalition

Germany's Social Democratic party (SPD) and the environmentalist Greens agreed on Saturday to form a coalition government in the northern state of Schleswig-Holstein, making it the fourth German Land, or state, to be ruled by a so-called red-green coalition. The Greens will take over the two ministries for environment and for women, youth and construction in a government led by Ms Heide Simonis, the SPD premier, who had enjoyed an absolute majority until state elections on March 24.

SPD party delegates approved the coalition agreement almost unanimously at a party congress on Saturday, while the Greens, who are entering government for the first time, found it more difficult to stomach the compromises reached with the SPD. A special party congress was kept in suspense until late on Saturday amid angry interventions. At least one Green delegate said she would resign from the party because it had not been able to stop construction of a motorway along the Baltic coast. *Michael Lindemann, Bonn*

OECD prepares for change of guard

When ministers gather in Paris today for the annual meeting of the Organisation for Economic Co-operation and Development, some diplomatic tact will be on display. The meeting is the last occasion at which Mr Jean Claude Paye, the outgoing French secretary general, will preside, after 10 years in office.

But the main focus of interest will be Mr Donald Johnston, the former Canadian finance minister, who replaces Mr Paye next month. Although Mr Johnston will keep a low profile, in deference to Mr Paye, the key question will be his future plans for the group.

The issue is particularly pertinent, given the meeting's agenda. This includes not only discussions about economic trends, trade and investment – but also a debate about the future of the organisation and the multitude of *difficulties dogging* it.

For the last three decades the OECD has acted as a meeting point and think-tank for the world's industrialised nations. But it now faces a severe budget squeeze, exacerbated by the failure of the US – the largest donor – to pay its funds.

Some observers, such as the Japanese, fear this reflects waning US interest.

As Mr Takashi Nakamoto, Japanese minister at the OECD, says: "The US style is now inward-looking and we are very anxious that the US is losing some interest in the OECD."

However, others think that the group is still too western-dominated. The OECD has tried to make some amends, by welcoming countries such as Hungary and Mexico, but this expansion is threatening to paralyse the OECD's consensus-driven process of making decisions.

Meanwhile, the OECD has a bewilderingly broad portfolio. This week's meeting will discuss – or skim – issues including trade, pensions, bribery, benefit systems, fiscal deficits and global interest rates, as well as a multilateral investment agreement which the OECD is negotiating.

Mr Johnston's style for dealing with this agenda is likely to be very different from that of Mr Paye, who has been criticised by the US for his apparently conservative style.

And, although Mr Johnston insists that firm plans will not emerge until he starts work next month, he already has a three-pronged programme.

His first priority is to establish that the organisation's main role should be the promotion of global free trade and research into related issues. "Trade and investment is the most important agenda because everything else flows from this," he says.

The second item will be addressing the resistance emerging in the developed world to this free trade, through the OECD's long-standing function as a promoter of labour market flexibility and stable economic policies.

"The reality is that trade does force adjustment – there are winners and losers. So the governments have to design programmes which can minimise losers and maximise winners, and the OECD is well placed to help with this," he says.

His third priority will be fighting popular resistance to free trade by ensuring that the OECD's message is heard not only by officials but also by the public and business community. *"I think it [the organisation] could be* more effective in delivering the OECD message," he says.

To achieve this last goal he hopes to involve the public in more OECD seminars and to increase lobbying, including in such countries as the US. "We need to spend more time on Capitol Hill. I do not think that the OECD is well enough known in Congress," he says.

These plans are welcomed by such countries as the US, Australia and UK, particularly as Mr Johnston also plans to tackle the budget problems with restructuring and change the current system of consensus decision-making. "With the budget resources we are going to have to look at new structures," he says.

However, this liberalising agenda is regarded with less relish by some countries, such as France. Moreover, trade and labour issues are likely to prove some of the more controversial topics this week. The OECD will publish, in the face of US opposition, a paper showing that there is little link between labour standards and trade.

There is likely to be disagreement on whether a new round of negotiations at the World Trade Organisation is needed.

The OECD will also pinpoint the measures countries need to take in order to reduce unemployment, which are likely to be regarded warily by some governments.

This multi-faceted debate will almost certainly be polite – in typical OECD style. But it should leave Mr Johnston in no doubt about the problems he may face in carving out a new activist, trade-promoting role for the group.

Gillian Tett

Johnston, left, faces a budget squeeze as he takes over the helm of the OECD from Paye, right

Loss of momentum in pharmaceutical sales

By Daniel Green in London

Drug sales in the world's biggest markets slowed sharply in February, hit by lower than usual seasonal levels of influenza and destocking in Japan, according to a report published today.

Sales in the the top 10 developed country markets in the first two months of 1996 were 7 per cent higher than in the same period of 1995, says IMS, the specialist drugs industry market research company. A year ago, sales were growing at 12 per cent a year.

Sales in Japan were down 3 per cent to $3.46bn. Drug companies are blaming the decline on this spring's compulsory price cutting round, which takes place every two years. The result is that wholesalers have cut stocks to a minimum.

Sales of anti-infectives – mostly antibiotics, which are widely prescribed for influenza – fell 4 per cent to $2.5bn.

The US remains easily the world's biggest market, with sales up 6 per cent to $9bn.

But Europe's top seven markets are growing faster, after slow growth in recent years and as new products are launched. Sales in Europe's top markets overtook the US for the first time in at least two years, with sales up 13 per cent to $9.7bn, excluding exchange rate fluctuations.

Germany is the biggest market, with sales rising 13 per cent to $2.9bn, with France close behind on $2.7bn, up 12 per cent. Italy grew 15 per cent to $1.5bn, after two years of tough price control measures. UK sales grew 13 per cent to $1.1bn.

The fastest growing medical area continues to be nervous system drugs, which include antidepressants such as Prozac, made by US company Eli Lilly.

Nervous system drug sales grew 14 per cent to $3.1bn in the first two months of this year. Also growing quickly are the blood agents, which include a relatively new class of drugs that lower the levels of cholesterol in the blood. Sales in this group rose 18 per cent to $1.3bn. The biggest single medical area is in heart drugs, where sales rose 6 per cent to $3.9bn in the first two months of the year.

It is closely followed by digestive system drugs, including Zantac, the ulcer drug that was the world's best seller in 1995, made by Glaxo Wellcome, and Losec, its faster growing rival made by Astra of Sweden. This group of drugs had sales of $3.8bn.

World pharmacy drug purchases January-February 1996 ($US m)

	US	Japan*	Germany	France	Italy	UK	Spain	Canada	Belgium	N'lands
Cardiovascular	[illegible]	626	622	[illegible]	298	175	[illegible]	116	64	[illegible]
Alimentary/Metabolism	1,480	664	473	429	239	211	141	96	51	77
Central Nervous System	[illegible]	178	[illegible]	342	[illegible]	[illegible]	[illegible]	105	[illegible]	[illegible]
Anti-infectives	851	428	224	854	220	77	119	48	49	21
Respiratory	[illegible]	317	[illegible]	257	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Blood Agents	447	321	122	167	85	24	49	43	16	20
Genito-urinary	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Others	1,651	958	604	402	293	206	162	109	58	54
Total	[illegible]	[illegible]	2,925	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
% Change**	6	(3)	13	12	15	13	10	1	16	9

Source: IMS International. *Non-hospital market only **Increase excluding currencies

WORLD TRADE NEWS DIGEST

US and UK in air access talks

Aviation negotiators from the UK and the US meet in Washington today amid industry speculation that British Airways and American Airlines are close to concluding an alliance.

The US has said it will block any such deal unless its airlines are granted greater access to London's Heathrow airport. Industry sources played down a report that BA and American could announce a deal as early as next week.

The US and Germany are due to sign an open skies agreement next week, which will also cement the alliance between United Airlines of the US and the German carrier Lufthansa.

This will increase pressure on BA to find a new US partner. It has a 24.6 per cent stake in USAir but the US airline has experienced financial difficulties. *Michael Skapinker, London*

China warns on sanctions

China yesterday continued its sharp criticism of the US over Washington's decision last week to initiate sanctions against some $3bn worth of Chinese exports unless Beijing upholds a February 1995 agreement to crack down on widespread counterfeiting of information and entertainment products. The US has given China until June 17 to comply.

Mr Zhou Shijian, a Chinese trade official, warned that a trade war would harm both sides. "The US could gain nothing from retaliation," Mr Zhou said.

China has threatened to impose tit-for-tat sanctions on imports of US products, including vehicles and automotive components. Beijing has also said it will suspend the establishment of US enterprises in tourism, trade and commerce. *Tony Walker, Beijing*

Sumitomo in China phones deal

Sumitomo Corporation, one of Japan's leading general trading companies, yesterday announced a Y20bn ($187m) multinational joint venture to build a telephone network in the Chinese port city of Tianjin.

This is the latest of a number of infrastructure projects launched by Japanese traders in east Asia, an important part of their strategy of seeking new business in emerging regional markets to supplement their traditional export-import trade, in which margins are thin and sales expansion only moderate.

Sumitomo will provide more than half the cash for the Tianjin telephone system, which will have 50,000 lines initially, rising to 300,000 by the end of the decade.

The service will be operated by a state-owned group, China United Telecommunications, and Sumitomo will receive a share of operating profits. Sumitomo said partners in the consortium were Tianjin Communications Investment, a local state-backed investor, Sprint, the third largest US long-distance telecom carrier, France Télécom and Deutsche Telekom. *William Dawkins, Tokyo*

■ SLM Software, a Canadian specialist in financial services systems, will supply an electronic ATM management network to Petrovskiy Commercial Bank, one of Russia's top 60 banks. The price was not disclosed. *Robert Gibbens, Montreal*

■ A joint venture between John Laing of the UK and Hip Hing of Hong Kong has won a contract to build HK$1.2bn (US$156m) general hospital in Hong Kong. The 458-bed hospital to be completed by 1999 will provide a 24-hour accident and emergency service. The contract has been awarded by Hong Kong Hospital Authority. *Andrew Taylor, London*

NEWS: ASIA-PACIFIC

Lee offers China 'journey of peace'

By Laura Tyson in Taipei

Taiwan's president, Mr Lee Teng-hui, will today offer to visit China on a "journey of peace" to meet mainland officials, in a gesture designed to defuse a year-long stalemate in relations across the Taiwan Strait.

Mr Lee, in an inaugural speech made public after being leaked in Japan, said he was willing to meet China's communist leaders, but would not succumb to their demands to halt his drive for global recognition.

"Today the existence and development of the Republic of China on Taiwan have won international recognition and respect... We will continue to promote pragmatic diplomacy in compliance with the principles of goodwill and reciprocity," Mr Lee says in his address.

The speech also contains reassurances that Taiwan remains steadfastly committed to eventual unification with China, which regards the island as a rebel-held province. When the island's first democratically elected leader is sworn in today, however, some aspects of his speech are likely to irk Beijing, notably praise for his country's transition to political pluralism and stress on the urgent need for similar reforms in China.

With his running mate, premier Lien Chan, Mr Lee was elected in March with 54 per cent of the vote in Taiwan's first direct and free presidential polls since his ruling Nationalist Chinese movement fled to the island in 1949 after losing China's civil war.

Accusing Mr Lee of secretly supporting Taiwanese independence, China conducted military manoeuvres near the island before the elections in an effort to undermine his popular support. However, the intimidation had the opposite effect.

To the annoyance of the presidential office, details of Mr Lee's keenly awaited inauguration speech were published yesterday in Japan's Nihon Keizai Shimbun and in Taiwanese afternoon papers.

Although hopes had been high in some quarters that Mr Lee might use the opportunity to announce a new direction in policy towards China, the excerpts leaked to the media appear to confirm the prevailing view that Mr Lee would adopt a conciliatory tone without making outright concessions.

Mr Lee himself had earlier dismissed speculation he would announce big policy shifts. "Our policy is consistent. We go step by step. In Monday's speech there won't be any extravagant ideas. I might come up with a little something, but very big changes are impossible," he said last week.

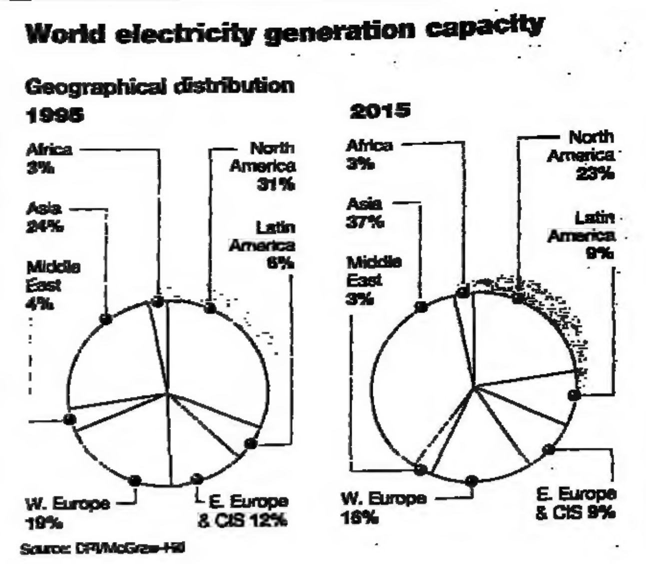
His advocacy of the *status quo* has made him extremely popular on Taiwan, where a public opinion poll published yesterday said Mr Lee enjoyed an 84 per cent approval rating.

Beijing recently demanded that Mr Lee make an unequivocal commitment to the island's unification with China and reaffirm the principle of "one China" and hinted that it was would look to see such statements in his inaugural address.

China has been reluctant to re-start the arm's length political dialogue with Taiwan which it severed in June 1995 to show its fury at a trip by President Lee to the US. The private but high-profile visit outraged Beijing, triggering a rapid downward spiral in US-China relations and an intensification of Chinese hostility toward Taiwan.

Taiwan maintains formal diplomatic ties with just 31 mostly small countries of which a dozen heads of state, mostly from Africa and Latin America, will attend the inauguration. The US and other democracies have sent prominent private groups, parliamentarians and retired officials.

Notably absent from the ceremony will be President Nelson Mandela of South Africa, whose government – Taipei's biggest ally – wishes to establish formal ties with Beijing.



'Informal' talks will try to overcome regional scepticism about wider cuts

Manila faces uphill task on tariff plan

By Edward Luce in Manila, Ted Bardacke in Bangkok and Manuela Saragosa in Jakarta

Philippine trade officials this week face an uphill task persuading its south-east Asian neighbours to accept a proposal extending the region's tariff cuts to the rest of the world.

The Philippines will push the proposal "informally" at a preparatory meeting, starting in Cebu today, for the November summit of leaders of the 18-member Apec (Asia Pacific Economic Co-operation) forum.

Under the proposal, south-east Asian countries would extend regional tariff-cutting measures to Apec on a Most Favoured Nation basis. The suggestion was greeted with scepticism in Thailand and Indonesia last week.

If the formula is accepted it would be presented as a radical liberalising gesture by President Fidel Ramos at the Subic Bay summit in November. The initiative is also aimed at stealing a march on other participants at the World Trade Organisation ministerial meeting in Singapore in December.

The Association of South-East Asian Nations (Asean) – comprising the Philippines, Singapore, Thailand, Brunei, Indonesia, Malaysia and Vietnam – has already agreed, with the exception of Hanoi, to cut tariffs with each other to a maximum of 5 per cent by 2003.

Under Manila's proposal, which officials are at pains to stress is not yet a formal Philippine position, Asean would extend the uniform tariff rate to the world at one unilateral – and unprecedented – stroke, well before commitments to do so by 2020 under an Apec agreement.

Officials, however, concede that with US and Japanese foot-dragging at the Apec level it will be difficult to persuade Manila's regional partners to adopt the package.

"Our experience of Asian trade negotiations is that very little is accomplished at a formal officials' level such as the preparatory meeting in Cebu," said Mr Melito Salazar, undersecretary for trade in Manila. "We want to float this quietly, behind the scenes on a bilateral basis and see if the idea gels."

Progress in Cebu, where Apec countries are to unveil draft action plans to put flesh on trade-reduction measures agreed at last year's summit in Osaka, will therefore depend on assuaging Asean's scepticism at meetings outside the main conference.

"Our first priority is consolidating Afta [Asean free trade area] especially with the addition of Vietnam on a different tariff reduction track," said a Thai trade official. "We have to be coherent as a region first, then we can open the system to others."

Thailand, which points out that Asean has set itself the priority of admitting Laos, Burma and Cambodia to Asean before 2000 – countries unlikely to be thinking of MFN tariff reductions – has not, however, ruled out the proposal.

Indonesia, which has a tradition of sending mixed signals on free trade, has also distanced itself from the proposal without rejecting the plan outright.

Ramos urges co-operation

The leaders of the Philippines and Malaysia have called for closer political and security co-operation to underwrite east Asia's fast economic growth, writes William Dawkins in Tokyo.

Mr Fidel Ramos, Philippine president, told a Tokyo conference organised by the Nihon Keizai Shimbun, the Japanese economic newspaper, that east Asia's political and security problems "will stall our future growth" unless the region's political co-operation moved forward.

"It is time we upgraded our institutions of political co-operation to reflect more accurately the intensity of our economic and security interdependence," he said.

Mr Ramos called for regional moves to prevent the growth of nuclear weapons and regulate the transport, storage and treatment of nuclear waste.

Dr Mahathir Mohamad, Malaysian prime minister, said increased political contact at bilateral and regional level would "contribute not just to peace but economic prosperity". East Asia should not closely emulate the European Union, but should recognise the role it had played in keeping the peace between former enemies and underpinning Europe's post-war economic development.

China expected to spur world's energy demand

By Deborah Hargreaves

Demand for energy in China will rise sharply by 2015, with big implications for world fuel resources, according to a study published today by DRI/McGraw Hill, the international consulting group.*

China's demand for energy then will be 70 per cent of that of the US, compared with just 40 per cent now.

The whole of Asia is expected to account for half the rise in energy demand up to 2015, when it will represent 35 per cent of the world total.

The growth in Asian energy demand will mean a strong market for crude oil, with world consumption up from 66m barrels a day in 1995 to 100m b/d by 2015. The Organisation of Petroleum Exporting Countries is expected to meet 75 per cent of the new demand, with the rest coming from a recovery in deliveries from the former Soviet Union and production rises in Latin America.

Natural gas is expected to see its share of overall energy demand increase faster than any other fossil fuel over the next 20 years. By 2015 it is expected to hold a 23 per cent share of world primary energy consumption with all of the world's regions developing viable gas markets.

Asia will need to import more gas by 2015 as demand outstrips its ability to produce. DRI estimates that inter-regional gas trade will account for 11 per cent of world demand by 2015.

Gas will increasingly displace coal for use in power generation, particularly in more mature energy markets such as North America and Europe. But DRI expects it to maintain its market share of world energy demand as emerging markets mine more of their own production.

DRI expects electricity generation to become more important to the world's economy by 2015. Privatisation of state monopolies and development of independent power producers should increase the importance of the electricity supply industry in each region.

1996 World Outlook, DRI/McGraw Hill, Wimbledon Bridge Road, 1 Hartfield Road, London SW19 3RU. Tel: 44 0181 543 1234. Fax: 44 0181 545 6248

Jakarta urged to complete reforms

By Manuela Saragosa in Jakarta

Indonesia must complete its economic deregulation agenda as foreign direct investment is set to finance the bulk of the country's non-oil trade and current account deficits and investors will look for signs of policy stability, according to the World Bank.

In its 1996 report on Indonesia, "Dimensions of Growth", the bank warned that foreign direct investment inflows "can be volatile", making it more urgent that the government shows its commitment to policy stability by completing its deregulation agenda.

Policy predictability is of added significance this year because potential overheating in the economy in the 1996-97 fiscal year and rising direct foreign investment, coupled with political uncertainty ahead of the 1997 parliamentary elections, could make Indonesia's economy particularly vulnerable, the bank said.

Indonesia's deregulation agenda includes implementing its Uruguay Round offers and tariff cuts announced in previous deregulation packages. The bank, which noted that Indonesia had one of the most promising growth records in the world, said necessary steps included removing non-tariff barriers on farm commodities and abolishing domestic subsidies and export restrictions.

The World Bank's comments are of particular relevance because Indonesia has made some unexpected policy changes since the beginning of this year.

In February, President Suharto awarded his youngest son the sole licence to manufacture a national car in a move which leaves established investors in the country's motor vehicle sector at a disadvantage. "Use of the trade regime to benefit special groups can be a source of resentment to society at large," the bank warned.

With elections only a year away, development expenditures are likely to rise, putting further pressure on the current account deficit. "The psychological side of the picture is going to be more difficult to manage over the course of the year," said Mr Dennis de Tray, resident director of the World Bank in Jakarta.

Indonesia registered a $6.9bn current account deficit – or 3.4 per cent of GDP – in fiscal 1995-96 and the government predicted earlier this month that the deficit would rise to $8.7bn in fiscal 1996-97.

Greater transparency and competition in the economy were necessary if the government was to secure a successful privatisation programme, proceeds of which would be used to pay off the country's substantial external debt.

The issue has assumed added urgency as higher investment demand is likely to spur even higher levels of external borrowing. Indonesia's foreign debt was about $100bn last year and ranks among the largest in the developing world.

Bangkok takes over bank

By Ted Bardacke in Bangkok

Thai financial authorities have taken over the Bangkok Bank of Commerce (BBoC), a mid-size commercial bank, citing the institution's "critical" condition in the wake of financial mismanagement and alleged fraud.

No changes have been made to the bank's management, but a five-member committee has been appointed to oversee operations. That committee must approve all new loans, come up with a plan to rehabilitate the bank and investigate the possibility of bringing civil or criminal charges against bank executives.

Bank of Thailand, the country's central bank, said BBoC altered profit and loss statements in 1994 and 1995 to show the bank made a profit when it was actually operating at a loss.

The bank also initiated a phoney capital-raising scheme, lending the National Credit Bank of Russia $55m which was used to subscribe to a BBoC share offering. There was also a pattern of high-risk and under-collateralised lending for corporate takeovers to clients who include two Thai cabinet ministers, the central bank said.

Bank of Thailand has been criticised for being aware of the problems at the BBoC but failing to take decisive action. Several attempts by the central bank to deal with the problems quietly, including a capital injection that made it BBoC's largest shareholder, were rebuffed by BBoC.

But Mr Chatumongkol Sonakul, finance ministry permanent secretary, said Bank of Thailand audits were quite strict and had not discovered similar practices at any other commercial banks.

Pakistani managers could have promotion tied to recovery of debt

Bank pay may be linked to loans

By Farhan Bokhari in Karachi

Pakistan's senior bank managers in public sector banks may find their career progress tied to performance in recovering loans when a new monitoring system goes into operation next month.

Under the system, the track record of bankers in sanctioning and recovering loans over the past 10 years would be fed into a computerised network at the central bank in Karachi. Bankers could have their promotions linked to the findings.

If the system succeeds, it would be an important step for the country's huge public sector banks, which need to recover large debts. The banks are reeling under the pressure of more than Rs100bn ($2.9bn) of debts on which borrowers have neither repaid the principal nor the interest.

The proposed measure comes amid uncertainty over the privatisation of United Bank (UBL), the second largest public sector bank, with bad debts of up to Rs25bn. The Habib Bank (HBL), Pakistan's largest public sector bank, which may be offered for privatisation by the end of this year, faces a similar problem although it is still in a better financial position than UBL.

Mr Muhammad Yaqub, governor of the State Bank of Pakistan, the country's central bank, recently outlined the new measure. "Each individual will be linked with the portfolios they have generated and that portfolio will be policed to see what happened to it.

"Those who have a consistent bad portfolio will be given negative value or less value in terms of their evaluation and this will be the major input in their annual evaluation."

If the central bank model succeeded, the system could be extended to all the country's banks. He agreed that the system might have some pitfalls initially but said it would improve "the accountability of bankers".

Last week 11 top union leaders at UBL were arrested on charges of fraud amounting to about Rs700m annually. UBL has been cited as an example of a public sector bank whose profits have fallen sharply due to mismanagement.

Bankers in Karachi said the new system might be an action taken in good faith to step up the recovery of bad loans, but it could be riddled with difficulties.

"So many top executives have been changed in public sector banks that it would be tough to put the finger on any one or even a small group," said one official.

Mr Yaqub suggested, however, that the new system would take the position and responsibility of bank officials into account. He also said that the new measures would serve as a deterrent to extending bad loans in the future by encouraging bankers to review clients with a high risk. "This is basically to tell bankers that they cannot continue to have a banking career when they have had non-performing portfolios," Mr Yaqub said.

■ The chairman of Pakistan's Planning Commission yesterday said that the economy was expected to grow by 6.3 per cent in fiscal 1996-97 (July-June), up from a projected 6.1 per cent in 1995-96, Reuter reports from Islamabad.

Mr Qazi Aleemullah also said that the consumer price inflation target for the next fiscal year would be set at 8 per cent compared to a projected average of 10 per cent for 1995-96.

INTERNATIONAL PRESS REVIEW

Wary neighbour has misgivings

PAKISTAN

By Farhan Bokhari

Mr Atal Behari Vajpayee's nomination as India's first prime minister from the Bharatiya Janata party (BJP) was certain to draw harsh criticism from neighbouring Moslem Pakistan – where the BJP is perceived as taking a tough religious stance.

During India's election campaign, many Pakistani officials optimistically predicted that the BJP might tone down its rhetoric once it got close to gaining power.

But last week, these predictions were proven wrong when Mr Vajpayee took a defiant view on both Kashmir – which has bitterly divided both countries – and the option of developing nuclear weapons.

The Dawn, Pakistan's most widely read English newspaper, reminded its readers that there was a qualitative difference between the time when Mr Vajpayee was Indian foreign minister in the late 70s, a relatively stable period in relations between the two countries, and the present day situation. The Dawn commentary thus took issue with some analysts who had used the example of Mr Vajpayee's earlier tenure to suggest that relations between the two countries may not necessarily witness a steep decline.

According to the Dawn, "the government [of the late 70s] was that of Mr Desai [a prime minister who led a coalition], and the Jan Singh [the BJP's predecessor] did not have a predominant position. Today the BJP is in power largely on its own."

Pakistan's mass circulation Urdu language *Jang* newspaper led the warnings when it wrote: "Mr Vajpayee's statement makes the motives of the new Indian government quite clear, and it now makes it impossible for Pakistan not to be concerned". The Jang urged the Pakistani government to take steps towards ending internal political bickering within the country, so that all political forces can be united to resist "new dangers" on the horizon.

The *News*, a leading English daily, warned that the BJP's victory must remind many in Pakistan that extremism is a growing force in India. The newspaper wrote: "The BJP could not have emerged as the single biggest party without having support for its doctrine of hate and violence. There must be millions who sincerely believe in what it preaches, to vote for it." The News warned that the "region will have to prepare itself to face a prolonged period of an India blowing hot and cold".

The conservative *Nawa-i-waqt*, known for its pro-Islamic and nationalist stance, also warned of the dangers facing Pakistan from a BJP government, but drew attention to an internal power struggle in "Azad Kashmir", the portion of Kashmir controlled by Pakistan. Opposition politicians have recently criticised the government of Ms Benazir Bhutto, the prime minister, for trying to change the state's administration through political manoeuvrings and pressure tactics.

The Nawa-i-waqt wrote: "Under these circumstances, irrespective of the view taken by the Indian prime minister, we are digging a hole for ourselves, and are prepared to do everything to frustrate the people of Kashmir while encouraging India (with its plans)".

The paper advised the government to make a proper assessment of the events in India, where any government would be a weak coalition government. "Pakistan should prepare to exploit the situation to its advantage, if the BJP government presses ahead with any of its pronounced policies," the paper said.

The *Nation*, an English-language daily which usually takes a nationalist line, joined other mainstream papers in alerting its readers to potential new dangers. "It is obvious that the BJP in power will up the ante as far as anti-Pakistan rhetoric is concerned," it wrote.

But the paper was quick to give credit to the smooth transition of government in India, reminding Pakistanis of their own troubles in nurturing a democracy. It wrote: "A far more instructive phenomenon for politicians in Pakistan is the smooth transition now taking place in India in the wake of the defeat of the party in power and uncertainty about the alternative government..."

Pakistani newspapers generally predicted that the BJP government would be short-lived. According to the Nation, "the BJP leader has not yet been confirmed in the office of prime minister and may never be able to do so, given his party's precarious strength in parliament".

It was left to *The Muslim* to point out that since he Mr Vajpayee chose to take a tough line last week, "it is not far fetched to argue that he was fully aware of the unlikelihood of receiving a vote of confidence in the parliament and for that reason was reiterating all that with an eye on the time when someone else would be voted into power."

African bank looks for fresh funds

By Paul Adams in Lagos

The African Development Bank will try to put behind it two years of bitter divisions over its management, ownership and funding at its annual general meeting which starts today.

The gathering will be the first under *the leadership of* Mr Omar Kabbaj, the bank president who was installed last August with US and French backing to *reform* Africa's leading lending institution.

His main tasks this week will be to secure replenishment of the bank's soft loans arm, the African Development Fund (ADF), which has been empty for two and a half years; to tackle arrears on loans to African countries, which now total $800m; and to initiate further internal reforms in order to secure the support of the bank's non-African members for a general increase in capitalisation next year.

The replenishment of the ADF is crucial to the bank's future. About two thirds of the bank's 50 African member countries depend on soft credit. Its non-African donors have refused to replenish the ADF until there are changes in the bank's credit and operations procedures.

Problems had largely accumulated during the second five-year term of former president Mr Babacar Ndiaye, which ended last August, when bad debts mounted amid corruption scandals, theft and waste.

While African members have resisted outside control of the bank, the principal non-African members – US, Japan, Germany, the UK and France – have tightened the supply of soft credits.

The ADF agreed at its most recent donors' meeting in Paris a target of $3bn in replenishment for the fund over the next three years.

However, the non-African donors have failed to agree among themselves on the share of burdens.

The ADB's governors, who are finance officials from the member governments, have raised the problem of arrears as a special item on the agenda this year.

Most of the arrears are accounted for by 3-4 chronically indebted members, such as Zaire and Somalia.

This year's meeting is the first since South Africa joined the bank with a small shareholding.

South Africa backs the non-African members' plan to increase their shareholding to 50 per cent in next year's general increase in capitalisation subject to further reforms.

Since Mr Kabbaj took over as president, 240 staff have been sacked, including the wife of the ex-president and limits

Reforms have been launched after years dogged by bad debts and corruption scandals

have been set on directors' tenure. Mr Kabbaj reports monthly to the governors on implementation of changes to the structure of the bank which were recommended by external consultants in the Knox Report in 1994, commissioned by the bank governors after scandals over corruption.

Ernst and Young, the UK firm of accountants, is also investigating past malpractices and dealings with failed banks such as the Bank of Credit and Commerce International, which was closed in 1991 by UK regulators, and the regional Meridien bank as part of a special audit into the ADB's finances.

WHO warns of jump in infectious diseases

By Clive Cookson, Science Editor

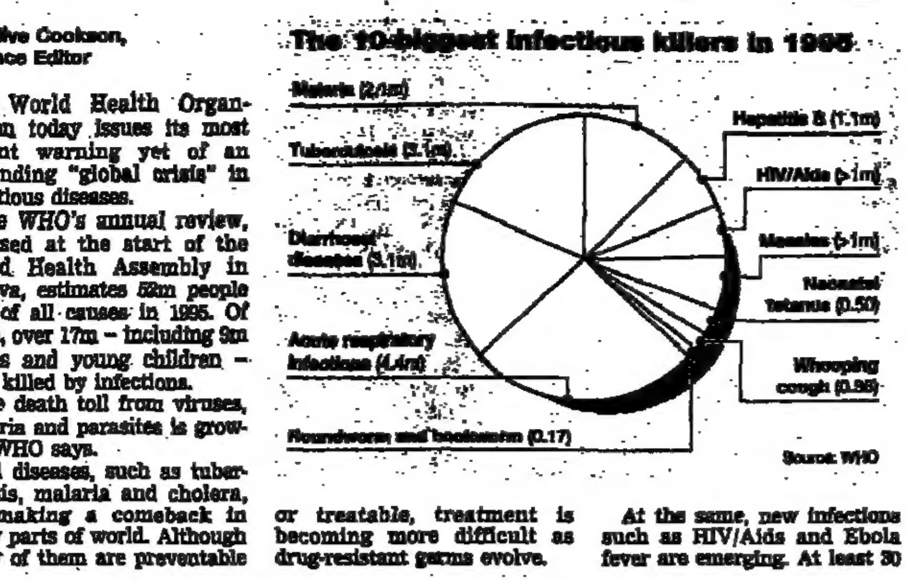
The World Health Organisation today issues its most urgent warning yet of an impending "global crisis" in infectious diseases.

The WHO's annual review, released at the start of the World Health Assembly in Geneva, estimates 52m people died of all causes in 1995. Of these, over 17m – including 9m babies and young children – were killed by infections.

The death toll from viruses, bacteria and parasites is growing, WHO says.

Old diseases, such as tuberculosis, malaria and cholera, are making a comeback in many parts of world. Although many of them are preventable or treatable, treatment is becoming more difficult as drug-resistant germs evolve.

The 10 biggest infectious killers in 1995



Source: WHO

At the same, new infections such as HIV/Aids and Ebola fever are emerging. At least 30 new infections have been recorded over the past 20 decades, says Dr Hiroshi Nakajima, the WHO director-general, "and many are incurable".

Dr Lindsay Martinez, WHO specialist in emerging disease, adds: "We need to realise all countries are at risk. New diseases can crop up anywhere, as the new variant of Creutzfeldt-Jakob disease in the UK shows."

"The optimism of a relatively few years ago that many of these iseases could be controlled has led to a fatal complacency among the international community," Dr Nakajima says. "That complacency is now costing millions of lives – lives that we have the knowledge and means to save, yet that we are allowing to trickle through our fingers."

The report is not wholly gloomy. International action is eliminating some diseases. They include polio, leprosy, tetanus, Guinea worm, Chagas and river blindness.

But the WHO predicts many diseases will continue to spread and will become more difficult to control, for a variety of reasons including:

- Rapid growth of Third World cities, where many millions of people live in overcrowded and unhygienic slums.
- A huge rise in international air travel and trade, which can spread germs from one continent to another within hours.
- Human habitation spreading into tropical forests, rich reservoirs of new diseases.
- Over-use of antibiotics in human and veterinary medicine.

"The pharmaceutical industry has rescued us on several previous occasions when bacteria became resistant to broad-spectrum antibiotics, by coming up with another generation of drugs," says Dr Martinez, "but the industry has now almost run out of technical approaches to finding new antibiotics, because there is a limited number of target molecules in bacterial cells.".

Factors driving the spread of infectious disease will remain for the foreseeable future, Dr Nakajima predicts, so "today's crisis is likely to get worse before it gets better."

The World Health Report 1996, WHO, Geneva, SFr15

Israel's Arab voters pin their faith on Peres

ISRAELI ELECTIONS May 29

There are no posters of rightwing opposition leader Benjamin Netanyahu in the Israeli-Arab town of Taibe. Instead, 10 days ahead of the Israeli elections on May 29, the run-down streets are festooned with election campaign pictures of Israeli prime minister Shimon Peres. Mr Peres' credibility has been dented recently among Israel's 1m Arab citizens after Israel's 16-day bombardment of Lebanon last month and the government's continuing strangulation of the Palestinian territories, but Arab fears of a rightwing anti-peace victory is likely to drive them to vote overwhelmingly for the Labour leader.

More importantly, in the separate parliamentary ballot, the elections could mark the political arrival of Israel's traditionally disadvantaged second-class citizens after 48 years of racial discrimination.

New political factors suggest Israel's Arab parties could raise parliamentary representation from five to a maximum of nine seats in the 120-member parliament, giving them a stronger voice to determine the shape and agenda of the next coalition government. "We are going to make the next government accept Arabs as a legitimate part of the state of Israel at all levels," said Mr Abdul Darawshe, a veteran Arab parliamentarian.

Israel's 1,050,000 Arabs comprise almost one in five of the country's 5.6m population, yet despite their numbers and potential power Israeli Arabs, the community of Palestinians who remained during the 1948 Arab-Israeli war, have traditionally been a marginal political force. They have been the victims of discrimination in allocation of resources, in housing, education and jobs, and in representation in state institutions.

There has never been an Arab cabinet minister nor an Arab supreme court judge.

And although the five votes of the Arab parties kept the current government in power and ensured continuation of the peace process, Israel's leaders refused formally to bring the Arab parties into the coalition.

The causes of Arab marginalisation are twofold.

First, the constitutional self-definition of Israel as a state for Jews driven by the *raison d'être* of ingathering of the Jewish diaspora makes Arab citizenship secondary.

According to Mr Said Zidani, an Arab researcher: "There are two types of citizenship in this country, one for the Jews, a citizenship by legal right, derived from moral religious or moral historical right; and another for the Arabs, a citizenship by legal right derived from generosity or grace."

Marwan Darweish, an Arab expert, says discrimination pervades institutions and symbols of the state. Furthermore a number of laws enshrine discrimination in taxation, education and land expropriation.

Exemption of Arabs from compulsory national service also denies the community a series of state benefits such as child allowance and housing grants awarded to army veterans.

Second, Israel's Arabs have connived in their own marginalisation by failing to exploit their potential political power. In the 1992 election only 69 per cent of Arabs voted. Twenty per cent of those who did supported rightwing or religious Jewish Zionist parties who had promised patronage in the form of jobs; 48 per cent of those who voted backed Arab parties.

At least three serious Arab parties are competing for votes. But a number of factors suggest a rise in Arab representation:

An Israeli military policewoman sends a Palestinian woman back to the West Bank as she is removed from a bus at a checkpoint into Jerusalem. Total closure for Palestinians has been imposed in the run-up to general elections on May 29 Reuter

- Polls suggest turnout will surge from 69 per cent in 1992 to up to 86 per cent. Part of the increased participation reflects the fact that the Islamic movement, which traditionally boycotted polls, is taking part.
- Support for rightwing and religious parties is expected to collapse, partly because they are seen by Arabs as anti-peace and partly because they have no government patronage to buy votes.
- Israel's new election system with separate ballots for prime minister and parliament could favour Arab parties. Arabs have two agendas. The external agenda focuses on continuing the peace process and creation of an independent state for their Palestinian cousins in the West bank and Gaza Strip. The internal agenda focuses on Arabs winning their legitimate right to full and equal citizenship. The new system allows Arabs to split their vote, backing Mr Peres for the external agenda and Arab parties for the internal agenda.
- Finally, the two biggest Arab parties – the United Arab List and Hadash – have concluded an agreement to transfer surplus votes, which should mean less wasted votes and increased representation.

Mr Peres has belatedly woken up to the power of the Arab vote.

The Labour party has doubled Arab representation on winnable slots of its list of candidates from two to four, *including the first Arab* woman likely to be elected, and Mr Peres has floated the idea of naming an Arab minister in his next cabinet.

Although many Arabs would like to punish Mr Peres for his recent actions against Palestinians and Lebanese civilians they know that letting Mr Netanyahu in would spell disaster. The overwhelming majority of Arabs will back Mr Peres but they are through with having their rights and representation bestowed by patronage rather than by right.

Julian Ozanne

Support urged from N American Names

By Ralph Atkins, Insurance Correspondent

Senior figures from Lloyd's of London will this week launch a big effort to persuade Names in north America to back the 300-year-old insurance market's recovery plan.

Mr John Stace, deputy chairman of Lloyd's, is to address meetings in Los Angeles and San Francisco alongside representatives of the moderate Association of Lloyd's Members, which supports the recovery plan.

Mr Ron Sandler, the Lloyd's chief executive, is to address meetings in New York and *Toronto. Mr David James, a* member of the governing council of Lloyd's, will address Names' meetings in Dallas and Chicago, while Mr William Pitt, the communications manager for the recovery plan, will meet Names in Miami.

LLOYD'S
LLOYD'S OF LONDON

The hurriedly arranged trips follow a breakthrough in California earlier this month when Lloyd's reached a deal with the state's securities regulators. This shelved legal action which alleged that investment in Lloyd's was mis-sold and which could have undermined the market's recovery plan.

The California deal also allowed Lloyd's to reopen talks with 500 Names in the state.

Opposition to the plan by north American Names, who have outstanding debts totalling £560m ($836m), has caused a series of problems for Lloyd's, which needs by late August to collect sufficient funds from Names worldwide to ensure its future solvency. Action by securities regulators in California and other states has raised the hopes of some US Names that Lloyd's will be forced to pay compensation for their losses.

Separately, the Securities and Exchange Commission, the federal securities regulator, has said that – contrary to past practice – US Names' grievances should be heard in US rather than UK courts. Because US courts may be more friendly towards the country's Names, that has strengthened the belief among some that their interests are best served by continuing litigation.

Lloyd's argues that its recovery plan, which includes a settlement offer worth £3.1bn ($4.7bn) to lossmaking and litigating Names, is worth significantly more to Names than continuing legal action.

However, it is likely to face stiff opposition. The American Names' Association complained that those who had ceased underwriting would be paying to allow Lloyd's to continue trading.

GM likely to win order for 250 freight locomotives

By Charles Batchelor, Transport Correspondent

Wisconsin Central Transportation, the US company which has acquired the British state rail network's heavy haul freight activities, is expected to place an order for up to 250 new locomotives costing £250m ($380m) with General Motors of the US. The company said no final decision had yet been taken but its board may consider the issue later this week.

This would represent a blow for UK-based rolling stock manufacturers. But industry executives said it was not regarded as a complete surprise and they hoped to win orders for some components. US manufacturing costs are lower because of the larger volumes required by US railroads.

GM locomotives are already used in Britain to haul stone for Mendip Rail, a joint venture of Amey Roadstone and Foster Yeoman, and coal for National Power, a former state electricity generator. They are the most powerful freight locomotives available in the UK.

● Virgin Group and British Airways may transfer competition in the air to the ground with competing bids for some of the passenger rail franchises which are being sold. Virgin said it expected to bid for Thames Trains, which serves London's Gatwick and Heathrow airports, and several other franchises. BA is also understood to be interested in bidding for Thames Trains, which also runs trains to Windsor and Oxford.

Both airlines would be keen to improve services to airports, but Virgin said its main interest was in establishing nationwide connections linking with the high speed Channel Tunnel rail link between England and France, in which it is a partner.

Shares in Railtrack, the former state infrastructure company, were yesterday priced at 390 pence, the top of the indicated range, and are expected to begin trading at a premium today on the back of overwhelming demand from institutions and private investors. More than half of the shares have gone to private investors, who were offered a 10p discount off the institutional price. This is a much higher percentage than the minimum 30 per cent they were originally allocated.

The strength of investor interest has put an initial market value on the company of £1.93bn ($2.93bn). This is well below the figure of £3bn to £4bn hoped for in the early stages of rail privatisation.

Selling railways, Page 15

EU experts to reconsider 'mad cow' curbs today

By Caroline Southey in Brussels

The standing veterinary committee of the European Union will today resume discussion of a proposal tabled by Mr Franz Fischler, the EU commissioner for agriculture, under which Britain would be required to impose tighter controls on the production of gelatine and tallow as a precondition to the export ban on these products being lifted. Semen would be included in the package.

Mr Fischler is due to present additions to the proposals to take account of concerns voiced by the veterinarians last week, including demands for tighter guarantees on the certification of gelatine and tallow plants.

While the UK and the Commission remain hopeful that enough countries will support the move, a coalition of states strongly opposed to the measure and those harbouring reservations could block the proposal. Germany and Austria have consistently opposed easing the ban.

The the UK government has also promised to table the long-awaited details of a selective slaughter policy aimed at reducing incidents of BSE, or "mad cow disease". British officials in Brussels suggested last week that the UK was prepared to increase the number of cattle targeted for slaughter from 42,000 to more than 80,000.

The BSE crisis will be discussed by EU agriculture ministers later today. The ministers will discuss Mr Fischler's proposal to pay farmers compensation for losses suffered as a result of the fall in prices and consumption.

● British butchers are urging the government to provide up to £150m ($228m) in compensation for unsaleable stocks and loss of business as a result of the BSE crisis, Deborah Hargreaves writes in London.

Beef exporters say they will serve legal papers on the government today unless it agrees to provide £18m compensation for unsold stocks.

Exchange to cut costs by 20%

The London Stock Exchange is working on plans to cut costs by 20 per cent and shed at least 300 jobs, to cope with its loss of income from share settlement when the Crest automated system starts operating, our Banking Editor writes. Some 250 of the jobs are to be lost as a direct result of Crest's introduction. But the board of the exchange will discuss measures this week to reduce last year's operating costs of £175m ($266m) by about £35m – which is likely to lead to additional large job cuts.

The exchange, which is still seeking a new chief executive following the enforced resignation of Mr Michael Lawrence, has already reduced its staff to about 940 from a peak of 2,800 in the wake of the 1986 Big Bang deregulation of the City of London.

Ms Fields Wicker-Miurin, its director of finance and strategy, told the Association of Private Client Investment Managers' annual conference this weekend that the exchange was committed to the cost reductions.

Detailed plans for cuts will be considered by the board in July.

Ms Wicker-Miurin told the conference that the exchange was planning to cut enough costs to meet the £80m reduction in its annual revenues from July onwards as a result of the movement from Talisman, the current settlement system, to Crest.

According to internal Stock Exchange estimates, its staff costs are at their lowest level in absolute terms since 1985, and are only 25 per cent of total costs. This ratio compares with 45 per cent for the New York Stock Exchange.

Tory chief probes 'Karadzic cash link'

By James Blitz at Westminster

Senior Conservatives last night expressed fears that their party could be on the verge of a new row over "sleaze" following allegations that businessmen linked to Radovan Karadzic, the Bosnian Serb leader, had given the party more than £100,000 ($152,000). Mr Brian Mawhinney, the party chairman, said he would launch a "full investigation" into claims that the party had received funds from Serbian businessmen between 1992 and 1994.

In a statement which surprised Tory MPs, Mr Mawhinney said he had asked party treasurers to investigate "serious allegations" in the Sunday Times newspaper that the Conservatives had received the funds between 1992 and 1994 – a period when UK troops were deployed in dangerous peacekeeping duties in the former Yugoslavia.

Mr Mawhinney said that *although he had no reason to* believe there was any impropriety involved, he would be speaking to one of the party's prospective candidates for Parliament who had allegedly been involved in one of two transactions between the Conservatives and a Serbian businessman.

Although Conservative Central Office accounts still show a deficit of around £2m, *Sir Colin Marshall, chairman of* British Airways, told Sky television it was no longer appropriate for companies to make donations to political funds.

According to the paper, it was reported to the Cabinet Office, responsible for reviewing sensitive intelligence matters. Senior security officials alerted Tory party leaders.

A second donation of £50,000 was allegedly arranged in December 1994 after Mr John Kennedy, a prospective Tory parliamentary candidate, contacted Mr Jeremy Hanley, the former party chairman. Mr Kennedy yesterday described the paper's report as "extravagant and misleading".

UK NEWS DIGEST

Executive files suit for bonus

THE BARINGS COLLAPSE

One of the Barings executives to whom Mr Nick Leeson reported is going to an industrial tribunal to *try retrieve* the £500,000 ($760,000) bonus she had been set to receive before the bank collapsed. Ms Mary Walz, the former global head of equity financial products, the group in which the Singapore trader worked, has filed a complaint alleging that Barings deducted money from her pay in breach of the Wages Act. If Ms Walz continues with her action, the case is expected to be heard in the *autumn. A tribunal* can order only £25,000 of compensation but a favourable verdict would open the way for Ms Walz to sue in the High Court. Ms Walz, who joined Barings from Bankers Trust in 1992, oversaw the arbitrage trading between derivatives exchanges in Singapore and *Japan by which Mr Leeson* appeared to be generating large profits.

Although Mr Ron Baker, head of Barings financial products group, was Mr Leeson's ultimate manager, *Ms Walz was* the London executive in day-to-day contact with the rogue trader and shared responsibility for managing him. The Bank of England's board of banking supervision, in its report last year, said Ms Walz did not check properly on the trading Mr Leeson was ostensibly doing, *nor did she have any real* understanding of its nature or true profit potential.

Barings' collapse in February 1995 came a few days before Ms Walz was to receive bonus money. ING Barings confirmed Ms Walz had started proceedings but would not comment further. *Ms Walz* would not comment. She has denied that Mr Leeson reported to her.

Nicholas Denton, Financial Staff

Navy strength 'at risk'

Government delays in ordering new ships are threatening the Royal Navy's capabilities and wasting millions of pounds a year, the latest edition of Jane's Fighting Ships is due to *claim* this week. Captain Richard Sharpe, editor, said there was particular concern over the delay in orders for the replacement of two steam-driven amphibious assault ships. "It is the Treasury seeking by any means possible to delay the contracts," he said. "It is *the economics of lunacy.*" The defence ministry denied that the navy's capabilities were threatened, and pointed to successful participation recently in a US joint exercise. It had been "the largest deployment of the [UK] fleet since the Falklands conflict". *Diane Summers, London*

Debit card spending up

Spending on debit cards grew at more than double the rate of growth in credit card spending last month, figures from the Credit Card Research Group show. The group, funded by the main credit and debit card issuers, says year-on-year debit card spending rose 27 per cent to £3bn last month while credit card spending increased to £4bn, up 11 per cent on April 1995. Ms Elizabeth Phillips, director of the CCRG, said debit card spending was unlikely to overtake credit card expenditure in real terms until 2000. *Motoko Rich, London*

Internet growth charted

Almost four in 10 of the UK's top 1,000 companies have a site on the Internet, the global computer network, says a survey by Barclays Bank. About three-quarters of companies questioned were concerned about the lack of Internet security while more than half worried that their employees were "surfing" the Net in company time. *Alan Cane, Industrial Staff*

THIS WEEK

Change is a-cooking for the Cajuns

DATELINE

Lafayette: south-west Louisiana is fast becoming a service economy centre and the inhabitants of the land of *boudin* are prospering, writes Jurek Martin

If this were being played by the FT book, we would be reporting that retail sales in Lafayette parish in March were the fourth best month on record, exceeded only by the three previous Decembers. We could note that in nearby St Martin parish, mobile home sales are going through the roof, simply because houses cannot be built fast enough to meet the needs of new arrivals.

Right here in the city, or rather its outlying malls, there is a brand new Gap clothing outlet and a Barnes and Noble book shop – these being a pair of retail chains which tend not to boldly go where no store has been before.

But there are better signs that the land of the Cajuns is changing than a ton of economic and commercial statistics. You can even sense it at Richard's Patio in Abbeville, where son Calvin, the cognoscenti might like to know, has succeeded father Red. Not so long ago, Richard's menu ran to just six items – boiled crawfish, boiled shrimp, boiled potatoes, boiled onions, pop and beer. Now he boasts desserts, Mexican beer and margaritas in a bottle.

Prices are up a bit, too, though $8.95 for a 3lb tray of crawfish for peeling may yet be the bargain of this and any other continent. You can still get a dozen oysters for $2 at Dupuy's (Monday to Thursday, lunch only, and the season ends this month). Jack and Lynda, who used to run Dupuy's but have opened their own café, Shucks, charge twice that – but the bivalves are better.

Down in New Iberia, there is a truly serious restaurant, Le Rosier, over whose kitchen Hallman Woods III presides. He is, name notwithstanding, local. Towards Baton Rouge, in an unfindable hamlet called Livonia, the old Dreyfus store is now Joe's Restaurant (everyone calls it Dreyfus's) where a Mr J Major does more amazing things with catfish, white peas with ham and onions and jambalaya than the British prime minister ever dreamed of doing to his Eurosceptics.

If this reads like a plug for south-west Louisiana in a foodie magazine, then so be it. For the fact is that there is no finer and more reasonable eating corner of the whole USA than Cajun territory, so long as you don't inquire too precisely what you are consuming and where it came from (even Chinese crawfish tails are on sale at the local Piggly Wiggly for $3.99 per lb).

The potted history of south-west Louisiana may be colourful, but it is not exactly redolent with prosperity. In 1763, Wolfe beat Montcalm in overtime on the Heights of Abraham, leaving the French in Quebec a little bereft until Charles de Gaulle woke them up 205 years later. Many migrated first to New Orleans, where French was spoken, and then on to the swamps and bayous 120 miles westwards. With the passage of time, they stopped calling themselves Acadiens and adopted the patois, Cajun.

Mostly they hunted and fished and spiced whatever they hauled out of the bayous and off the roads with the hot sauces turned out by the McIlhenny family of Tabasco fame (produced only on Avery Island, which is actually a salt dome, and has no truck with globalised production like Lea and Perrins). McIlhenny's acquisition some years ago of its rival, Cajun Chef, was probably the most important takeover in Louisiana history.

The Cajuns did not intrude or extrude except on Mardi Gras, when they drank more than usual, which takes some doing. They were politically disinterested, and therefore Democrats, because that is what the Long family, Edwin Edwards and Leander Perez – the past grandmasters of state and local politics – required of them in return for not being too fussed over corruption on a fairly grand scale.

Everyone recounts how Edwards, governor until last year, was whisked off to Las Vegas, where his party won big, as the necessary prelude to his successful campaign to introduce legalised riverboat gambling in Louisiana, with substantial Nevada investment. But the tale is told mostly without malice.

Cajuns got some trickle-down wealth from oil and gas, which also kept state taxes low, but mostly they cooked in it. Now economics and politics are changing. Energy may be the lynchpin again, after its ghastly recession of the 1980s, but Lafayette is in the process of becoming a service economy centre. Supermarkets now routinely house not just automatic teller machines, but full service branch banks.

Both the local Cajun congressmen, Billy Tauzin and Jimmy Hayes, have switched parties and are now Republicans, as is the governor, Mike Foster. This is a Catholic – and culturally conservative – region that flirted seriously with David Duke, the neo-Nazi, not so long ago, but he was last heard of selling insurance.

Anne Newland, who happens to be my mother-in-law, likes to tell the local version of an old-chestnut joke. Three brains, from Harvard, Yale and Louisiana State University, are put up for auction. Why does the LSU brain fetch the highest price? Because it's never been used. Judging by the way things are now going in the land of *boudin*, that might not be true for much longer.

PEOPLE

Sun City's father unwinds

Tim Burt talks to the founder of the fantasy African casino resort

Sol Kerzner, the South African casinos and leisure tycoon, crunches his gold worry beads rather menacingly when questioned about some of his business dealings.

The former welterweight boxer and founder of Sun City, the biggest casino resort in Africa, is reluctant to discuss why – some years ago – he paid the prime minister of Transkei R2m (£300,000) for exclusive gaming rights in the tribal homeland.

"We have been investigated more than any other company," he grimaces. "It's behind us and frankly I've got better things to do with my life than talk about all that garbage."

The controversy surrounding the payment to former prime minister George Matanzima has certainly not put a brake on Solomon Kerzner's growing business empire. In any case, his aides point out, such payments were not illegal under South Africa's apartheid regime.

Still, Kerzner clearly found the experience uncomfortable. Shortly after disclosing the payment to a judicial inquiry, he resigned as chairman of Sun International, his flagship company, and from the board of its main shareholder: Safmarine and Rennies Holdings (Safren), the diversified South African industrial group.

In what he describes as a purely business decision, he sold his remaining Sun International stake to Safren and emigrated to Britain seven years ago.

Speaking at his London penthouse, he explains curtly that there were more exciting opportunities elsewhere. "Up until the end of apartheid, it was very difficult for us to expand internationally. Once it was clear things were changing we were able to take the product into new markets."

Kerzner's "products" – resorts boasting five-star hotels, man-made beaches and championship golf courses – have made the 60-year-old a millionaire several times over.

He gambled and won by staking his fortune on developing luxury casino resorts – first in South Africa, now the Bahamas, Comores, France and Mauritius. The son of a Russian immigrant, raised in the aptly named Johannesburg suburb of Travall, now commutes between homes in Britain, the French riviera and Cape Town in a private jet.

"We were ahead of the game in South Africa. People don't just want casinos. They want to relax, too. We proved it at Sun City." He says the fantasy African resort in the former homeland of Bophuthatswana is "what Las Vegas would like to become".

The original development, opened in 1979 and expanded four years ago with the completion of the $267m "Lost City", was initially funded by cash generated at Southern Sun, the hotel group set up by Kerzner in the 1960s. He sold the hotel chain 12 years ago to South African Breweries, while retaining Sun City. The proceeds were used to form Sun International, the vehicle for his subsequent casino ventures.

Although Sun City is still widely regarded as a Kerzner operation, it has been run by Safren since the entrepreneur decided to sell up and leave South Africa. He is coy about how much the shipping-to-leisure group paid him for his stake in Sun International, saying only that the business had a market capitalisation of R3.5bn-R4bn when he quit.

The decision looked sweetly timed. It not only gave him the financial muscle to set up Sun International Hotels, his latest resorts company, but provided an exit from South Africa just as the government widened its tax net to include gaming revenues from the former homelands.

Since then he has spent $250m on Paradise Island in the Bahamas, where Sun International Hotels operates its glitzy Atlantis resort, the largest gaming venue in the Caribbean. Kerzner says he has succeeded where previous owners such as Donald Trump and TV presenter Merv Griffin failed, by "conceptualising projects which the public find very appealing". Atlantis boasts shark-infested aquariums, coral reefs, 1,200 rooms and vast gaming malls.

Occupancy rates of more than 90 per cent at Atlantis and at the group's other resorts have underpinned a steady increase in profits. Moreover, since it was formed two years ago, the market capitalisation of Sun International Hotels has grown from $150m to $1.5bn.

Now Kerzner has turned his attention to the north American mainland, where he has struck a deal with the Mohegan Indian tribe to build a $285m casino and entertainment complex in Connecticut. The development has been partly funded by a $330m equity offering in New York – the first ever by an Indian tribe – which was very heavily over-subscribed.

The project should be finished by November. Indeed, its South African backer has already turned his attention to other things. He is using cash reserves and borrowing facilities to double the size of Atlantis within 18 months. "This business is really motoring," he says. "Just look at the shares." Sun International Hotels stock placed last February at $35 a share has since jumped to $46.50.

Kerzner finds all this deeply pleasing, particularly given his large stake in the company. He admits, however, that the price has been high. Thrice married – his second wife committed suicide in 1978 – he says his business acumen has been acquired at a personal cost. "When I was younger the balance of work against my private life was not good. I've changed all that."

He has delegated much of his workload, not least to his son Butch, a possible successor. Kerzner has vowed to take holidays. He says: "For someone who loves his work and is having fun, it's quite a tough discipline, but I'm coping."

Striking a deal with the Mohegan Indian tribe: Sol Kerzner

N NAMES IN THE NEWS

Elegantly bearded Pischetsrieder grooms BMW

From his eyrie atop a Munich skyscraper, Bernd Pischetsrieder, a 47-year-old engineer who succeeded to the BMW chairmanship three years ago, looks out upon a world transformed for the prestigious Bavarian car maker, writes John Griffith in London.

In the run-up to his accession, there seemed reason to worry about BMW's future. Eight years of non-stop economic growth had fizzled out. Profits were under pressure. Japan's car industry appeared to have seized the initiative from the west. In North America, the world's biggest luxury car market, BMW, Mercedes and Porsche were in retreat. And, not least, there had been rumblings that the early quality of the latest BMW 3-Series saloons was not up to scratch.

Yet armed with spanners and BMW's cheque book, the quietly spoken, elegantly bearded Pischetsrieder has left little unfixed in terms of repairing past problems and seeking to secure BMW's long-term future.

He has stepped up investment in new model programmes and partly broken out of the straitjacket of high German costs by establishing production in North Carolina. Having shown European rivals how to raise quality to the point where consumers now take reliability for granted, Japan's car makers can only gnash their teeth as Euro-buyers opt once more for Euro-style.

In the past few weeks, an all-new 5-Series model has gone on sale to much critical acclaim, while BMW's biggest-selling 3-Series will have a successor next year, even though the present car is still globally popular. BMW's profits this year should be greatly in excess of last year's DM692m (£300m).

And, so far, Pischetsrieder has evaded any embarrassment at Rover, bought more than two years ago. The acquisition of what was once a state-owned British company by a German company was inevitably highly sensitive, but Pischetsrieder has handled things well. However, the big Rover challenge is yet to come, for the sudden departure of chief executive John Towers has signalled BMW's growing disquiet with Rover in areas such as quality improvement and lacklustre sales performance.

Yet those who know Pischetsrieder say his political talents are well up to the job of finessing a situation in which BMW takes tighter control of Rover without raising UK hackles. His colleagues stress that he is his own man, quite prepared to stand or fall by the consequences of his decision to buy Rover and to create one of the industry's most unusual groups: a pair of niche players.

Seydoux's true passion is Pathé

Jérôme Seydoux, chairman of the French group Chargeurs, left little doubt where his interests and priorities lie at a presentation to financial analysts last week, reports Andrew Jack in Paris.

He was announcing the de-merger of his group into two separate quoted companies: Chargeurs International, which will control a variety of textiles, coatings and distribution businesses; and Pathé, a media group which will own the cinema chain of the same name and hold important stakes in BSkyB and Canalsatellite.

While Seydoux will continue to hold shares in both groups and sit on both boards, it is Pathé which he will chair, Pathé which dominated his presentation last week – and Pathé which clearly fills him with most passion.

Jérôme is one of three sons of René Seydoux Fornier de Clausonne and his wife Geneviève, the daughter of Marcel Schlumberger and hence one of the heirs of the fortune generated by the Schlumberger business empire.

An engineer by training, Seydoux moved smoothly into the world of finance, working as an analyst with the firm Istel, Lepercq and Co in New York in the early 1960s before joining Banque de Neuflize, Schlumberger, Mallett. Then, briefly, he was head of Schlumberger Ltd. In 1976 he took control of the textile group Pricel, and became chairman of Chargeurs in 1980 when the two merged.

Like his two brothers, Jérôme was drawn to the more glamorous world of the media, using Chargeurs as the basis for a broad diversification, first, in 1985, in helping launch La 5, the first private television channel in France; then, in the next few years, adding film catalogues, BSkyB and the Pathé empire to his business. More recently, he took a controlling stake in Libération, the struggling left-wing French daily newspaper.

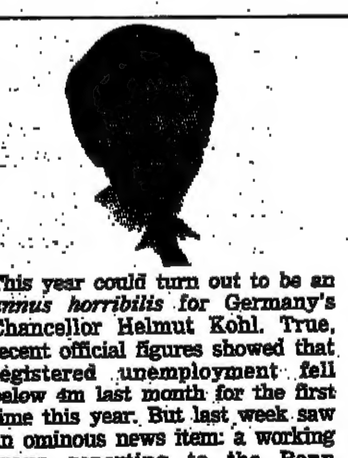
Cassandras turn on Hely-Hutchinson

When most company chairmen announce profits warnings, their peers wonder whether they might be next, writes Alice Rawsthorn in London. When Tim Hely-Hutchinson delivered the grim news last week, his fellow publishers barely bothered to disguise their glee.

As chairman of Hodder Headline, Britain's third biggest consumer book publisher, Hely-Hutchinson, 41, was one of the noisiest critics of the net book agreement, the century-old pact that enabled UK publishers to prevent discounting of new books. The agreement collapsed last autumn, and the book trade has since struggled to adapt to a far more competitive environment.

At first glance, Hely-Hutchinson looks like a model of the publishing modernists that the traditionalists love to hate. One reason why the traditionalists complain so bitterly about him is doubtless because, as the son of the Earl of Donoughmore, with an education that included Eton and Magdalen College, Oxford, they would have expected Hely-Hutchinson to defend the gentlemanly ethos of the book trade as "one of us". Instead, they were horrified when he threw in his lot with "them".

Hely-Hutchinson now faces the challenge of proving that his oft-professed theory that publishers and booksellers can use price promotion to encourage people to buy more books works in practice.



Peter Norman · Economics Notebook

Germany fails to bite on the bullet

Talk of radical surgery is fuelled by the crisis in the social market economy

This year could turn out to be an *annus horribilis* for Germany's Chancellor Helmut Kohl. True, recent official figures showed that registered unemployment fell below 4m last month for the first time this year. But last week saw an ominous news item: a working group reporting to the Bonn finance ministry predicted that overall tax revenues of the federal, state and local authorities in 1996 and 1997 would be a massive DM88bn (£38bn) less than previously expected.

The projections throw into doubt whether the government's controversial package of tax changes, welfare restructuring and DM50bn of spending cuts at federal and state level will be sufficient to return the economy to growth and make it fit for European economic and monetary union in 1999. More fundamentally, they raise the question whether Kohl's reforms – designed to preserve Germany's social market economy and the bulk of its generous welfare provision – are far-reaching enough.

That does not mean Germany is on the brink of a Damascene conversion to US-style free-market capitalism with minimal welfare provision. Most Germans still live too comfortably to consider such a step. Nor, since it is felt that the UK has moved backwards in terms of social policy and quality of life since 1979, would any German politician dare to call openly for the British model of reduced welfare provision and greater individual responsibility.

But the crisis in Germany's social market economy is reaching the point where discussing radical surgery is no longer taboo. A sign of new thinking is a 20-point paper addressing the problems of high unemployment, globalisation and structural change produced jointly by Kurt Biedenkopf, the Christian Democrat prime minister of the eastern German state of Saxony, and Gerhard Schröder, the Social Democratic premier of Lower Saxony in western Germany.

The paper, discussed at a two-day session of Germany's 16 state premiers, points to a middle way between Germany's social market model and Anglo-US capitalism. It shows how much of Germany's present structure could be retained, and incorporates some ideas that already feature in Chancellor Kohl's "programme for more growth and employment". But what might one day be dubbed the "Saxon model" of Biedenkopf and Schröder goes further than the Bonn government in emphasising individual responsibilities.

The paper starts by making some unpleasant assumptions. It expects no significant increase in the supply of jobs in traditional industrial nations. With the cost of pensions, health care, unemployment pay, social security benefits and residential care for the elderly rising faster than economic growth, it argues that income generated by employment will be insufficient to finance the comprehensive welfare benefits that Germans enjoy.

That marks an important departure from the prevailing philosophy in Bonn. Kohl and Norbert Blüm, his labour and social affairs minister, believe Germany's "pay as you go" system of social welfare insurance, with its heavy financial burdens on businesses and their employees, can be adapted to cope with changed conditions. But Biedenkopf and Schröder say Germany must do more to encourage wealth accumulation by individuals and move towards funded systems to finance pensions and cover "other risks in life".

The two politicians argue that the present system of levying social fund contributions solely or overwhelmingly on the income generated by employment is creating a vicious circle. The contributions, taken from gross wages and paid equally by employers and the employed, have helped make German labour the most expensive in the world. Persevering with this system would boost investment to replace labour by machines, putting more people out of work. The increased cost of the resulting unemployment would then be pushed on to employers and employed through still higher contributions, giving yet another shove to capital rather than labour-intensive investments.

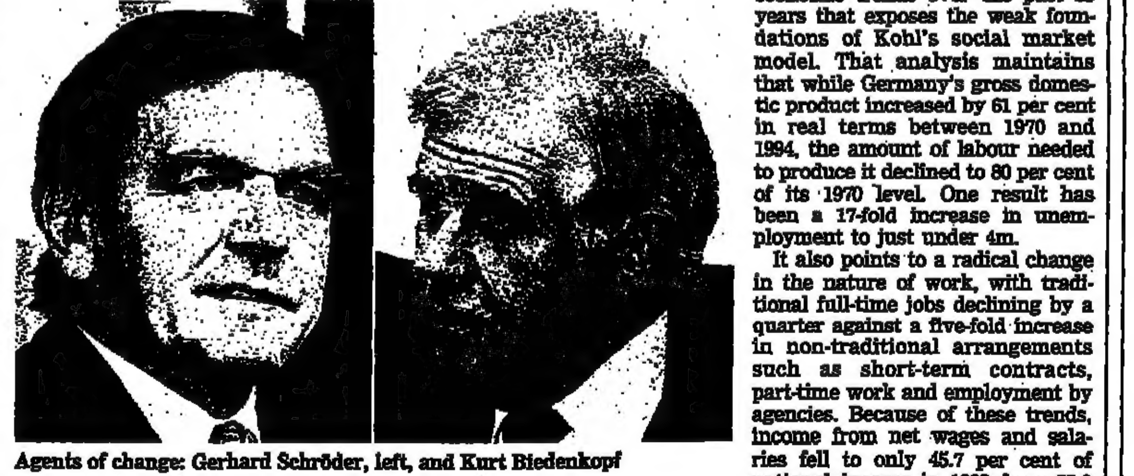
The Saxon paper urges many policy measures that feature in the government programme. Like the government, Biedenkopf and Schröder believe that encouraging domestic service is a promising way of creating employment and curbing the black economy. They favour more flexible working hours, the provision of more part-time work in the public sector, increased encouragement of research and development, a battle against red-tape and incentives for new entrepreneurs.

It is no surprise that the two premiers stress they do not want "the American way" transplanted to Germany. But there is little doubt they are far more impressed by America's ability to create jobs in services, information technology, multimedia and the non-profit sector than the cabinet in Bonn.

The Saxon leaders based their recommendations on an analysis of economic trends over the past 25 years that exposes the weak foundations of Kohl's social market model. That analysis maintains that while Germany's gross domestic product increased by 61 per cent in real terms between 1970 and 1994, the amount of labour needed to produce it declined to 80 per cent of its 1970 level. One result has been a 17-fold increase in unemployment to just under 4m.

It also points to a radical change in the nature of work, with traditional full-time jobs declining by a quarter against a five-fold increase in non-traditional arrangements such as short-term contracts, part-time work and employment by agencies. Because of these trends, income from net wages and salaries fell to only 45.7 per cent of national income in 1993 from 55.8 per cent in 1970, while income from entrepreneurship and capital increased to 38.4 per cent from 26.9 per cent. A result has been an ever-greater burden of taxes and social charges carried by employees. By 1995, personal income taxes were taking 20 per cent of total wages against just under 12 per cent 25 years before, while social contributions took a further 16.5 per cent, against 10.7 per cent in 1970.

Biedenkopf and Schröder have strong power bases in their home states and, because of their presentational skills, find a ready echo in the media. Germany's economic problems are so grave that any plan that offers hope of improvement will get a hearing. The readiness with which income tax reform has been added to the national political debate recently is a sign that there is a lively market in ideas in Germany – and that ideas can even influence events in Bonn.



Agents of change: Gerhard Schröder, left, and Kurt Biedenkopf

MANAGEMENT

Corporate America may be down on downsizing but it still has further to run, explains **Tony Jackson**

Now it's a case of dumbsizing

The downsizing of corporate America is a topic which refuses to go away. It has become commonplace for politicians and the media to lambast US companies for the damage they are doing to families and individuals. Now a more ominous note is creeping in. Downsizing, it is claimed, fails in its object: that of securing the future health of corporations.

The argument falls under two headings. First, corporations are accused of what the Wall Street Journal last week neatly dubbed "dumbsizing". Too often, it appears, management does not realise that a given job is necessary until it has axed it. It then faces an embarrassing choice between inefficiency and rehiring the employee.

More broadly, some argue that in its anxiety to cut costs, US industry has compromised its ability to expand. This so-called "hollowing out" thesis is not new. But it has gained adherents lately, notably Stephen Roach, the influential chief economist of Morgan Stanley, the Wall Street investment bank.

As Roach has told his clients – and FT readers in an article last week – growth in capital stock in US manufacturing has roughly halved since 1980, while growth in factory employment has gone into reverse. Developing nations such as China and India, he argues, are leading an explosion of growth in world demand. US industry risks loss of market share through a shortage of capacity.

A subtle variation on the theme is set out in a recent book entitled *The Loyalty Effect* by Frederick Reichheld, a management consultant. Companies, Reichheld says, too often overlook the crucial importance of loyal customers: and the best way to retain customers is through loyal employees.

New customers, he points out, cost a great deal to acquire. Ex-customers, on the other hand, are generally a bad advertisement. The retention of customers translates directly into higher earnings and cash flow. One of the first uses of that cash flow should be to build up and train a loyal workforce to retain customers in future.

There is a further refinement. It is often argued that the whole downsizing phenomenon reflects a profound shift from the industrial age to the age of information. But perhaps business is still stuck with an industrial accounting model: one that records expenditures on plant and machinery, but fails to track investments in human and intellectual capital.

On this view, the results of downsizing are wrongly recorded. The reduction in the wage bill is counted as a cost saving, which pushes up earnings and thus the share price. In fact, the destruction of intellectual capital is a reduction in shareholder value, which must be made good in future. In short, it is dumbsizing writ large.

Meanwhile, the media continues to focus on the social damage of downsizing. Earlier this year, the New York Times ran a lengthy and effective series on the topic. By the paper's own estimate, it had not devoted so much space to a single issue since it published the secret Pentagon Papers on the Vietnam War in 1971. This month, the series re-appeared in book form.

All this is having an effect on corporate behaviour: or, at least, on its presentation. At the start of this year, AT&T announced with a flourish that its planned break-up would cost 40,000 jobs. It was promptly denounced as a corporate villain.

The lesson was duly learnt. Last month two more phone companies, Bell Atlantic and Nynex, announced a \$50bn (£33bn) merger. Job losses, they said, would be a mere 3,000. Both figures can be viewed with scepticism. Most of the AT&T job losses would probably have happened anyway, as a result of changes in the phone industry. As for the merger, the companies omitted to mention that Nynex alone is in the process of shedding 18,000 jobs because of those same changes.

As it happens, Nynex offers a classic case of dumbsizing. It was recently ordered by the New York Public Service Commission to return \$50m to its customers, because its slimmed-down workforce was offering such poor service.

There is another reason for the shift in corporate rhetoric: political hostility to downsizing in an election year, particularly from populists such as Pat Buchanan.

Whether this is more than sabre-rattling is another matter. Clinton lectured business leaders last week at a White House breakfast on corporate responsibility. But he was careful to confine himself to exhortation rather than threats of reprisal. Indeed, on the specific issue of downsizing he was largely silent.

It is not hard to see why. In the run-up to an election, no president is likely to harp on job losses during his administration. Clinton, naturally enough, prefers to accentuate the positive.

During his administration, according to a report from his Council of Economic Advisers last month, net new employment in the US has been stronger than in any other leading industrial country. Two-thirds of those jobs have been at above-average wages.

Granted, job losses have caused pain, and this must somehow be addressed. But ultimately it cannot be helped: as the report puts it, "a dynamic labour market inevitably destroys some jobs while creating others".

While this is politics-speak, it contains a core of bleak truth. Downsizing is socially harmful, and may – if done badly – damage corporations themselves. But companies cannot help themselves. They are in the grip of larger forces.

According to a senior Wall Street investment banker, most of his big corporate clients tell him privately that they have plenty of downsizing still to do. "The big four banks will tell you they're only just beginning," he says. "They don't want to talk about it because they don't want to go to Washington and get lectured."

On this view, downsizing is merely a by-product of profound and revolutionary change in the US economy. For some companies, the result may be a temporary drop in efficiency and productive capacity. The alternative could be extinction.

There is a more trivial reason. The sad truth is that from the viewpoint of management, downsizing pays. As the investment banker puts it, Wall Street greatly prefers a dollar of cost savings to a dollar of extra revenues. In some cases at least, this may be short-sighted: but the chief executive who defies Wall Street will not be around for long.

Last week, the food giant ConAgra said it would axe 6,500 jobs and shut or shrink 29 of its factories. The news added \$500m to its market value. On this showing alone, downsizing has further to run.

The corporate folk hero and a most valued asset

One cold morning just before last Christmas, Aaron Feuerstein, president of the textile group Malden Mills, accomplished what seems impossible in these days of corporate downsizing: he became a folk hero.

"Most managers are just paying lip service when they say that the employees are their company's most valued asset," says Feuerstein. "I really mean it."

Feuerstein's attitude won him a place of honour as one of the 100 guests at President Clinton's summit on corporate responsibility last week. The Feuerstein legend began after a raging fire destroyed three of the corporation's main factory buildings in Lawrence, Massachusetts. The US media pounced on the event as a gloomy tale of 1,400 workers out of a job during the holiday season. That the company formed the economic mainstay of a down-at-the-heels city, once a powerhouse of the American textile industry, only added to the poignancy of the story.

Yet an announcement by Feuerstein soon gave the event an inspirational edge: three days after the blaze, the group's president announced that he would continue to pay workers made redundant by the fire for 30 days. Later, he extended the offer to 90 days. The gesture not only won Feuerstein favour with his employees, it also won him a place in the heart of several politicians.

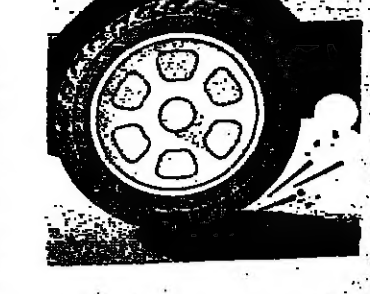
President Clinton applauded Feuerstein in his State of the Union address earlier this year, holding him up as a model of sensitivity and caring in today's harsh corporate world. Other politicians, such as Democratic Senator John Kerry and Republican Governor William Weld from Massachusetts, praised the textile executive. Labour Secretary Robert Reich visited the factory and commended Feuerstein for his commitment to his workers.

Malden Mills is a family-run company that has been run by the Feuersteins for three generations. In the 1980s, when most US textile groups headed south in search of cheaper workers and energy costs, Feuerstein championed a new high-technology fabric called Polartec, used in winter clothing. The material, both light-weight and warm, pulled Malden Mills out of bankruptcy to become one of the most successful US textile groups.

To many Americans, the Feuerstein story was a nostalgic cry back to the days when industry barons acted as father figures to a dedicated and loyal workforce. Whether or not those days existed is a matter of debate, but the long round of downsizing has left US workers feeling vulnerable and angry with corporate management.

Feuerstein says his strategy will pay off. By showing he values employees, he believes, he has guaranteed the company a committed workforce. Some 80 per cent of the Malden Mills pre-fire personnel have now returned to the factory, and Feuerstein hopes to put the rest back to work by the end of the year, when a new factory building should open its doors. Whether or not Feuerstein repeats the financial successes of Malden Mills' recent years, he has achieved an image few US executives can touch these days: that of a kind, caring man who put himself out for his workers.

Victoria Griffith



FAST TRACK

Flying Flowers

In a few years, Flying Flowers has transformed itself from a struggling Jersey glasshouse grower to a specialist mail-order company which floated in August 1993. The core Flying Flowers business is one of the largest flowers-by-post companies in the world.

This rags-to-riches story of a local carnation nursery turned international business was achieved by developing its database expertise and some astute acquisition of related companies.

"The skill we inject is the marketing," says managing director Tim Dunningham. "For instance, people had sent postal packs from Jersey for years, but none had sought to follow up the customers to see if they would repeat the purchase." Recruiting customers, getting them on to the database and then managing the information "is the key to the development of our business," he says.

One way to recruit them is through acquiring related but "undermarketed" companies.

Since Flying Flowers recognised that it was producing Jersey-grown blooms in July, August and September while demand for its product was highest at Christmas and Mother's Day, it has shipped in carnations from Colombia where 70 per cent of the world's carnation crop is grown. The flowers are packaged on Jersey, where the orders are taken, and then sent out, mainly via the Jersey postal services.

Dunningham estimates that about half of first-time customers use Flying Flowers again; they then become loyal customers. However, the margins for the postal packets are low he says, explaining the company's thirst for more customer database entries and for more opportunities to introduce products that are less seasonal.

In March 1994, it acquired DPA Direct, which sells bedding plants and related garden products via reader offers, and in January 1995 it bought Bellbourne, which supplies flowers and pot plants to forecourts and supermarkets.

Sales for the group in 1995 totalled £26m, of which the core Flying Flowers business accounted for around £10m and DPA for around £7m; Bellbourne contributed about £8.5m. Pre-tax profits overall were £2.64m. In 1994, sales were £14.6m with pre-tax profits of £4m.

The group has just announced proposed acquisitions of Blooms of Bressingham, plant growers and distributors, Clarke and Spears, house plant distributors, and Benham Group, which distributes first-day stamp and coin covers by mail order.

Benham is a mail-order company and Dunningham adds: "If the product is right the mail-order marketing is very similar."

Since 1990, the group has spent around £250,000 a year on hardware and software. This will continue, says Dunningham, because the volumes require ever-increasing levels of processing.

Asked to explain the sudden take-off of Flying Flowers since the late 1980s, Dunningham can only say that it is about spotting an opportunity to use well-developed marketing skills: "It's not rocket science stuff but others don't seem to be able to do it," he observes.

Harriet Arnold

The physics of consultancy

Lucy Kellaway

What do Europe's brightest and best graduates want to be when they grow up? They want to be management consultants. In particular, they want to work for McKinsey, Boston Consulting Group and Arthur Andersen in that order. This depressing finding emerged in the European Graduate Survey published last week which shows that the popularity of consultancy continues to rise and rise.

It used to be said that the problem with British industry was that the nation's best talent was sucked into the City where salaries were better, colleagues more congenial and the lifestyle more glamorous. In the mid-1990s the same applies, but for British read European and for the City read consultancy.

I daresay consultants need to be bright. Advising companies on how to change their organisations is a delicate matter, and requires a fairly logical mind, some facility with words, a bit of experience and so on. But writing a consultant's report and walking away still strikes me as considerably easier than being a real manager, responsible for making the business profitable, efficient and flexible, day in and day out.

Unfortunately, the market does not recognise this. Because consultants charge so much they can afford to pay too. People are impressed if you tell them you work for McKinsey; they are more likely to commiserate if you say you are a graduate trainee at ICI. This has bred a most distasteful arrogance within the consultancy trade: brash young consultants at McKinsey/BCG/Andersen never tire of telling you how stupid their clients are and how smart they are by comparison.

A couple of weeks ago I met a consultant at a drinks party who solemnly told me how her firm recruits the best brains in the world, and how it had just taken on a top US nuclear physicist. I suggested that a) this was not the best use of a physicist's talent and b) if I were a company paying a king's ransom every day for a consultant, I might rather have someone with some experience of the business world. She gave me a tight little smile and moved on.

My reaction could be sour grapes: when I left university in 1981 I applied for a job with Boston Consulting Group. I did not know then what management consultants were, but I did know that they paid twice as much as anyone else.

At my interview I was asked by an aggressive young man what a learning curve was, and then was expected to draw one. My attempt was not a success and I did not get the job. I subsequently discovered that the learning curve was one of the consultant's great contributions to management theory. It plotted learning against time and showed a falling gradient: in other words, if you are new to something you learn at a faster rate. It's all very well. But it's not exactly nuclear physics.

Hurrah! hurrah! hurrah! for Archie Norman. By banning foreign beef from all Asda stores, he is boldly supporting Britain and giving us customers what we want. "British beef is the best and safest in the world, and our shoppers want to buy it," he cheered last week.

Whether or not the government responds in the desired fashion by giving this bold young businessman a knighthood, it must be admitted that his move was a PR masterstroke. The timing was immaculate; he waited to declare that Asda had always wholeheartedly supported British beef until the tide had turned, BSE hysteria subsided, and even Jacques Chirac shown himself prepared to meet and even eat *les rosbifs*. He also waited for his competitors to announce their ludicrous ban on buying beef from slaughterhouses involved in the cull. Thus he scored a double whammy: cast himself as the saviour of Great British Beef and rubbished the competition at the same time.

Were I an Asda customer I would be perplexed. Most of its rival supermarkets do not sell foreign beef anyway. And if Asda had formerly offered a choice, then surely it should continue to do so. As a shopper I would like to be able to choose to buy British myself. I would not want to have Archie Norman make that choice for me.

Further to my remarks last week in praise of untidy desks, a reader has written to inform me that I operate the Volcano system of desk management. Apparently tests have shown this method to be highly effective for four excellent reasons: 1. Nothing ever gets lost because everything is in the same vicinity. 2. Nothing ever gets mis-filed (because nothing is filed). 3. All paper eventually rises to the top and gets dealt with. 4. Most paperwork is unimportant and for anything that matters reminders will be sent.

I would also like to apologise to my colleague who felt that his volcano of a desk had been misleadingly described last week. The dead spider plant I referred to is in fact a parlour palm and he has drawn my attention to one or two living leaves.

BUSINESS EDUCATION

Britain's trade unionists are realising the value of management qualifications, says **Andrew Bolger**

Joining the premier league

Trade unions are taking education more seriously than ever before – up to and including MBA (master of business administration) level.

The Engineers and Managers Association, which represents 32,000 professionals in industries such as aerospace, electricity supply and shipbuilding, last week joined with the Open University to offer an MBA to union members and thousands of other engineers and managers.

"This is a very exciting breakthrough in education, and a revolutionary departure for trade unions," said Celia Pillay, chief executive of EMA Training, the company set up to market the qualification.

Speaking at the London launch, she said: "The MBA in Technology Management presents professionals who wish to progress in science and engineering with an opportunity to develop their management potential. Most other MBAs are geared to moving managers across to finance or marketing."

EMA Training brings together the EMA and the civil service union IPMS, working with the Open University and the EMA's sister union in Australia, Apesma – which developed the first trade union MBA in technology management.

Bill Brett, general secretary of IPMS, said: "Our members, both in the civil service and wider public service, are finding their employment security and career opportunities changing significantly. This qualification will offer them the opportunity of broadening their career opportunities, thus improving their employability in both public and private sectors."

The MBA will be offered at fees which individuals can afford so that they can take charge of their own education. However, the early signs are that some companies will want to contribute to fees.

Tony Cooper, general secretary of the EMA, said: "We have taken account of the changing political and employer attitudes to career development training, which place much greater emphasis on an individual's responsibilities to invest in his or her own development. The MBA will enable engineers and managers to compete for the top managerial jobs in technological industries."

The EMA is affiliated to the Trades Union Congress, which has also just launched the first National Vocational Qualification (and its Scottish equivalent) for Britain's 3,000 full-time trade union officers.

John Monks, general secretary of the 7m-strong TUC, said: "Professionalism is as crucial as commitment if today's trade union officer is to deal effectively with the rapid rate of change and uncertainty in the world of work. The NVQ is a landmark in trade union development and signals the new professional approach of trade unions in Britain today. It should improve industrial relations and will improve the service that unions offer their members."

Acknowledging that unions are not always completely comfortable with their role as employers, Monks said: "Another thing that pleases me about achieving accreditation is that when we exhort employers to invest in training and to provide the opportunities for their staff to gain a qualification, we can look them in the eye and say – 'we've taken our own advice'."

The NVQs have taken several years to develop and are jointly awarded by the TUC and the University of Oxford Delegacy of Local Examinations. The TUC has also just completed the first stage of developing standards for Britain's 300,000 voluntary trade union representatives.

A full-time officer on the NVQ pilot scheme was Mike Clancy of the EMA. "The organisations in which our members work are constantly demanding improved performance," he said. "The trade union movement cannot ignore members' heightened expectations of our services that results. The NVQs provide a framework to validate the work of trade union officers who are at the centre of service delivery."

NEWS FROM CAMPUS

The seven-year success story

What separates the "high-flier" from the mediocre manager? The answer, according to Henley Management College, is the willingness to take risks and a fierce competitive streak.

The results are based on an assessment of the personal qualities of managers who attended the general management course at Henley seven years ago. Other qualities which high-fliers demonstrated were the ability to motivate staff and the need to achieve demanding targets.
Henley: UK, (0)1491 571454

Teamwork across the college boundaries

Business students from a variety of graduate colleges buried the hatchet to take part in "Chesebrough-Pond's USA at Simon" marketing case competition. The annual event, held at the Simon school at the University of Rochester, is unlike other case competitions in that teams have to be made up of students from three or more of the participating schools. The winners of this year's award were from Rochester, Carnegie Mellon, Cornell and Chicago. Students had to devise a marketing plan for Chesebrough's Aquanet hairspray.
Simon school: US, 716 275 3736

Public service students wooed

Civil servants wanting to study for next year's sponsored public-sector MBA can now begin applying for courses. Further information can be obtained from the course providers, Sue Birley, director of research at Imperial College Management School, and Cranfield and Manchester Business Schools and the Civil Service College.
Imperial: UK (0) 171 594 9151

Another gong to take into account

Accounting professor Ken Peasnell has been named distinguished academic of the year by the Chartered Association of Certified Accountants and the British Accounting Association. Peasnell is professor at Lancaster University Management School.
Lancaster UBS: UK, (0)1524 594024

LANGUAGE COURSES

CONFERENCES & EXHIBITIONS

MAY 21-23
IT Applications for Financial Services
Finance IT is a comprehensive exhibition and conference covering all IT applications for financial services: retail banking, wholesale banking, insurance, building societies, mortgages and investments. Over 100 suppliers including IBM, Microsoft, Rank Xerox and Dun & Bradstreet. Membership of the Financial Times VIP Club at the show is available to Financial Times readers. Fax your business card marked "FT reader" to 01932 570860. Ring 01932 564455 for further information and free tickets.
LONDON

MAY 22 & 29
Acquisitions & Management Buy-outs
Of special interest to management teams for whom an acquisition or an MBO may be an option. Professional experts will address the key issues, right through from identifying the opportunity, negotiating the transaction, funding the deal and minimising the risks.
Robson Taylor Corporate Finance/TSB
Details: Nicky Cotter 01225 428114
Fax: 01225 447767
LONDON

MAY 31
Information & Strategic Planning
A one day seminar examining the value of information strategies and systems in the strategic planning process. Key speaker Douglas Bernhardt, author of Perfectly Legal Competitor Intelligence.
Further details from Wendy Brooke, London Business School Information Service 0171 262 5050, fax 0171 706 1897, email wbrooke@lbs.lon.ac.uk
LONDON

JUNE 3-4
Acquiring, Retaining & Developing Profitable Customers in Financial Services
Financial services companies are finding it increasingly difficult to develop their processes, technology and functions in line with the current and future needs of their customers. This conference has been designed to present the best practice for developing and retaining profitable customers by bringing together senior executives from European financial services companies and leading experts in the field.
Contact: Business Intelligence
Tel: 0181 543 6565 Fax: 0181 544 9020
SEMS: SURREY

JUNE 3-4
Getting to Grips with Complexity
The discipline of Systems Engineering has developed effective techniques for dealing with complexity in today's projects and ventures, involving complex trade-offs and whole life cycle issues. Two day symposium organised by INCOSE - International Council on Systems Engineering, with 2,500 members world-wide. Co-sponsored by the IEE, IOP and DTI Foresight, contact Catherine Ashworth at IOP, 76 Portland Place, London W1N 4AA Tel: 0171 470 4800
Fax: 0171 470 4900,
e-mail conferences@iop.org
COVENTRY

JUNE 4 & 5
Introduction to Foreign exchange and money markets
Highly participative training course covering traditional FX and money markets featuring WINDEAL a realistic PC based dealing simulation. For Corporate treasury, back office, marketing executives, financial controllers, systems and support personnel. Also suitable for candidates for the ACI intro examination. £520 + VAT.
Lywood David International Ltd.
Tel: UK (0)1959 565820
Fax: UK (0)1959 565821
LONDON

JUNE 5-6
EIS 96
Europe's leading conference and exhibition covering the full spectrum of managerial applications and enterprise reporting technologies: EIS, OLAP, Data Warehousing, Data Access and Query Tools, and much more. An international conference programme gathers many of the world's best thinkers, practitioners and case studies. Also includes an exclusive exhibition of over 40 leading suppliers.
Contact: Business Intelligence
Tel: 0181-543 6565 Fax: 0181-544 9020
Olympia, LONDON

JUNE 5 - 6
Introduction to Derivatives
* Interest Rate Swaps * Off-Balance Sheet * Forward Forwards & FRAs * Accounting Overview * Financial Futures * Currency Swaps * Warehousing * Internal Deals * Swap Process * Interest Rate Option * Exchange Traded Options. Case studies included. £425 + VAT 2 days
Contact: TFL/Nicola Blackman
Tel: 0171-606-0084/600-2123
Fax: 0171-600-3751
LONDON

JUNE 5 - 7
Bonds, Bond Futures & Derivatives
A practical workshop explaining fixed income markets. * Essential Bond Mathematics * Variations on Generic Debt * Domestic & International Bond Markets * Evaluation of Credit Risk * New Issues * Bond Futures * Hedging Bonds with Futures * Using Repo Markets * Restructuring Bonds using Swaps * Using Embedded Structures. Case studies, practical exercises and computer simulation included. £1,500 + VAT 3 days
Contact: TFL/Nicola Blackman
Tel: 0171-606-0084/600-2123
Fax: 0171-600-3751
LONDON

JUNE 7
Marketing on the Internet
A practical workshop to show the opportunities on the Internet to achieve marketing objectives and grow brands. Topics include: The Internet consumer, leading USA web sites, ways to generate sales, putting your brand on the Internet and Eurostar as a case study.
Presented by The Chartered Institute of Marketing CLB, and Tequila. Call Sara Carlyle at Century Communications at 0171 838 0008
London Business School, LONDON

JUNE 10-11
Introduction to Debt and Corporate Work-Outs
This course is especially relevant to those wishing to gain an insight into the techniques and procedures employed in specialised recovery work. * Defining Work-Outs * The Alternatives * Debtor Rights and Protections * Creditor Rights and Protections * The Work-Out Industry * Work-Out Practices in Different Markets. 2 days £595
Contact: Fairplace
Tel: 0171-623 9111 Fax: 0171-623 9112
LONDON

JUNE 10-14
FIA/FOA International Derivatives Week Annual Derivatives Conference and Exhibition
Futures and options industry participants exchange views on the latest international business, regulation and compliance, technology and clearing/settlement issues. The exhibition will showcase emerging markets.
Contact: Futures Industry Association
Tel: 001 202 466 5460
Futures and Options Association
Tel: 44 0171 265 2154/2137
LONDON

JUNE 11
The Intranet: A Corporate Revolution?
The Intranet - the internal Internet - will be key development in IT for the remainder of the decade. Intranet allows companies to communicate internally and also to the marketplace. JSB, Lotus, Barclays Bank, ICL, Attachmate, Hewlett Packard and IBM provide expert views and case studies from companies which have already got Intranets up and running. Find out the hows, whys and whynots.
A UNICOM business seminar
Tel: 01895 256484 Fax: 01895 813095
email:nina@unicom.co.uk
LONDON

JUNE 11/12
Understanding Treasury Derivatives
Training course covering treasury derivative markets, Currency Options, SAFEs, FRAs, Futures. Interest rate swaps and related products. For Corporate Treasurers, bank dealers and marketing executives, financial controllers, systems / support personnel. Also appropriate for candidates for the ACI Diploma. £520 + VAT.
Lywood David International Ltd.
Tel: UK (0)1959 565820
Fax: UK (0)1959 565821
LONDON

JUNE 12
Developing a Learning Organisation
This one-day conference brings together leaders in the field of Human Resources to share their knowledge and practical techniques to make the learning concept a reality. Four workshops will provide opportunity for interaction.
Contact Angela Harland, Qtab, Strategic Human Resource Consultants
Tel: 0181 546 8990 Fax: 0181 546 7223
LONDON

JUNE 12
Indirect Tax Conference - The Changing Face of VAT
Conference to examine the effect of fundamental changes in the European interpretation of VAT on UK law, the commercial environment and the impact on your business. The conference features breakout sessions covering Financial Services, Land and Property Customs Duty and Practical Planning.
Price: £200 plus VAT
Contact: Becky Brown, Ernst & Young
Tel: 0171 931 3248 Fax: 0171 931 3602
LONDON

JUNE 12, JULY 4
Part of the ongoing business improvement event series.
Delivering Results with the Internet
Hosted by the BPRSG (now over 400 leading corporate members). Speakers from STAFFWARE, POST OFFICE COUNTERS, UTILISENSE, FOX PRESENTATIONS with case studies reviewing practical and successful ways of implementing Internet and multimedia technology for internal and external use.
Contact: Stephanie Lund-Clark
Tel: +44 (0) 1926 833371
Fax: +44 (0) 1926 882123
Email: stowers@cix.compulink.co.uk
INSTITUTE OF DIRECTORS, June 12, LONDON
July 4, EDINBURGH

JUNE 12 & 13
Advanced Swaps
This workshop is designed to build on the knowledge of generic swap structures. Participants will gain experience of pricing and structuring non-generic interest rate and currency swaps. The workshop will specifically address the hedging of interest rate and currency exposures. Spreadsheets will be used to evaluate and manage swap risk. Knowledge of spreadsheet useful but not essential. £900 + VAT 2 days
Contact: TFL/Nicola Blackman
Tel: 0171-606-0084/600-2123
Fax: 0171-600-3751
LONDON

JUNE 13
Fabian Business Seminar Labour & the Lottery
Speakers: Rt Hon Dr Jack Cunningham MP, Dr Lewis Moonie MP, George Howarth MP, Sir David Puttnam, David Rigg, Diana Kahn, Diane Coyle, Dr Sue Fisher, George Wilson CBE.
For details call Sarah Atkin at Neil Stewart Associates on 0171-222 1280 / fax 1278
LONDON

JUNE 17 & 18
FT WORLD ALUMINIUM - Strategies for a Global Market
Jean-Pierre Rodier of Pechiney; George Haymaker of Kaiser; Jochen Shimer of VAW; Ronald Thoms of Crown Cork & Seal; Gerald Janicki of McDonnell Douglas - and many more leading producers and users of aluminium - will discuss, debate and analyse, the crucial strategic issues facing the sector as it becomes truly global.
Contact: FT Conferences
Tel: 0171-896 2626 Fax: 0171-896 2696
LONDON

JUNE 17 - 20
Corporate Credit Analysis
This course is for Lending Officers, Credit Analysts, Risk Managers, Bank Inspectors, Internal Auditors & Credit Managers. Covering:- * Environmental Analysis * Industry Stability & Competitive Position * Management Assessment * Financial Analysis * Cash Flow Analysis * Facility Structure * Risk Rating Systems * How to Present Credits * Problem Loans. £950 + VAT 4 days.
Contact: TFL/Nicola Blackman
Tel: 0171-606-0084/600-2123
Fax: 0171-600-3751
LONDON

JUNE 18 & 19
World Insurance and Reinsurance Conference
An unrivalled opportunity for all those involved in the insurance and reinsurance market world-wide to hear an exceptional 20 strong speaker panel review and discuss key industry issues. Back at the QEII Conference Centre, organised by DYP Conferences part of LLP Limited, supported by Lloyd's List Insurance Day, this event will be bigger and better than ever.
Contact: DYP Conferences - Harvey Dawson
Tel: +44 (0) 171 250 1500
Fax: +44 (0) 171 253 9907
LONDON

JUNE 18
IGC Grains Conference
Will higher grain production in 1996 permit some rebuilding of stocks and help to alleviate concerns over food security? Grain industry leaders will assess the outlook. They also will focus on trade opportunities in major markets, with special emphasis on Asia, and examine the latest developments in global flour and feed industries.
Contact International Grains Council
Tel: 0171 513 1122 Fax: 0171 712 0071
LONDON

JUNE 18, 19, 20
Multimedia '96
'the only event for interactive business'
Exhibition of the latest interactive products and applications for marketing, business presentations, training, point-of-information, retail, desktop communications, publishing and video conferencing.
Business Design Centre Islington N1
0171 359 3535
LONDON

JUNE 19-21
Introduction to Derivatives
It is vital for bankers at the leading edge to be fully acquainted with the risks and rewards of new and sophisticated market instruments. This course provides an excellent practical introduction to this complex area. * Background/Development of Derivatives Market * Currency/Interest Rate Derivatives * OTC vs Exchange Traded Options * Oil and Metal Swaps, FRA's. 3 days £795
Contact: Fairplace
Tel: 0171-623 9111 Fax: 0171-623 9112
LONDON

CONFERENCES & EXHIBITIONS

England tour a 'time of peace' for Star of India

Keith Wheatley gets a genteel brush-off from cricket's Sachin Tendulkar

Sachin Tendulkar was watching cricket. For one viewed by many as potentially the world's greatest batsman – notwithstanding West Indian Brian Lara's records – it was surprising to find him absorbed in this way.

Although Tendulka was being rested during the Indian tourists' match against Gloucestershire, the young star seemed genuinely interested in the fag end of a pointless draw as the home side listlessly chased 300 runs on the final afternoon.

At the Bristol county ground there is a curious enclosure from which the batting side watch the game. White wrought iron railings, less ornate than the nearby but more celebrated Grace Gates, surround a small square of tarmacadam outside the team dressing rooms, while orange plastic chairs are provided for those who are either out or awaiting their innings.

Tendulkar had chosen a chair close to the railings, which proved a source of joy to a small flock of Asian children who loitered nearby. Bristol has a considerable ethnic population, and the average attendance at Gloucestershire's home matches would be a good deal lower without their passion for cricket.

A small girl in a sari, five or younger, wriggled through the railings and presented her hero with a ball-point pen and a cricket ball no larger than a Kiwi fruit. Tendulkar, 23, laughed, and asked her where she had found such a thing before struggling to find space for his polysyllabic name on the ball's red leather. It would have been more practical to ask spin bowler Raju for his autograph.

As player and child chatted, the West Country sun sunk over suburban roofs. The few hundred spectators – no more, for this was weekday English county cricket – dribbled towards the exits. There was more chance of a Martian landing than firecrackers or a crowd riot, the customary Calcutta response to almost any incident in an international cricket match. Indeed, it would not have been surprising if Tendulkar had barely recognised it as the same game.

His face is now seen all over India on the country's most popular credit card. During cricket's recent World Cup his curly-haired good looks beamed down from almost every advertising hoarding and his face sprang from almost every magazine. His superstar popularity was confirmed – to the rejoicing of India's millions – when Tendulkar signed a $5m contract with WorldTel, the Indo-US promotional company that had secured the TV rights to the World Cup.

Yet there is a hideous price to pay, given that Tendulkar is a shy young man with little or no taste for the high life. He dare not walk down the street in Bombay for fear of the suffocating crowd that would gather in seconds, and has had to recruit his brothers to fend off endless approaches from agents, brokers and shysters.

Rupert Murdoch's pan-Asian satellite station Star TV bid a lot of money (unsuccessfully) for the chance to broadcast Tendulkar's recent wedding to his childhood sweetheart, and a brigade of security men was needed to keep the marriage ceremony private.

Since he made his Test debut against Pakistan at the remarkable age of 16, Tendulkar has known only a steadily increasing frenzy of adulation from his countrymen. Indeed, when he goes out to bat in the first one-day Texaco international at the Oval in London on Thursday, a good part of south London's Asian population will probably be there to cheer him on. With an average of 78.14 against England, they are backing a winner.

Yet last week he absent mindedly watched a Gloucestershire middle-order pair build a snail-like 6th wicket partnership and sipped an orange juice –and no one paid any attention. Feeling lower than a cobra's belly, I had to play the reporter and intrude on Tendulkar's privacy by asking if watching a pretty pointless county game in England wasn't an overwhelmingly pleasant contrast to life at home.

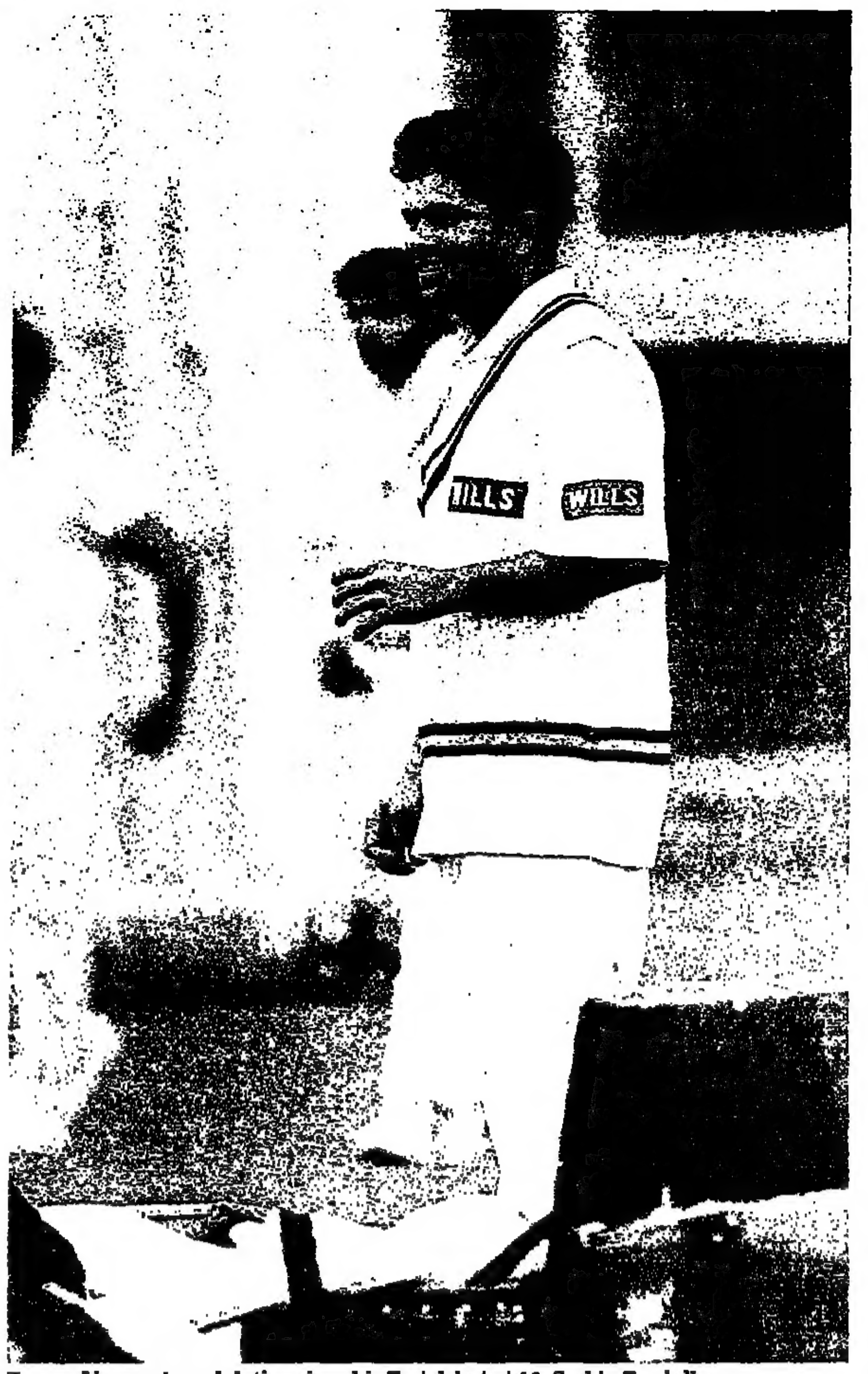
"I really am sorry," he replied, with great courtesy. "None of the players are allowed to talk to the media without the specific permission of the tour manager. Why don't you ask him if he will let me give you an interview?"

Manager Sandeep Patil knows a thing or two about celebrity. When his playing career with the Indian team ended, he went into movie acting, briefly becoming a Bollywood star. In Patil's best-known film, *Once Upon a Stranger*, he played the romantic lead, the sub-continent's Robert Redford. Now he spends much of his time keeping young cricketers, especially Tendulkar, out of the limelight.

"No, you cannot speak to him," said Patil. "Maybe if he had scored a century or taken five wickets." But Tendulkar hadn't even played, I argued. "Ah, my dear friend," said Patil, with genteel vagueness. "I am also editor of *Shatakar*, one of our country's top sports magazines, and I know what the journalists need. Unfortunately, it isn't what the cricketers need. That is why they all have a contract with the Indian Cricket Board prohibiting unauthorised contact with the press.

"Someone like Tendulkar is under unbelievable pressure from television and newspapers at home. There is nothing he can do that isn't watched and photographed. For someone as modest and down to earth as him, it is very difficult to endure. His sole wish is to develop and learn more cricket skills. This tour of England is like a retreat for him, a time to be peaceful and do nothing much more than hit a cricket ball beautifully."

It all made such perfect, civilised sense that there was nothing more to be done than have a general discussion with Patil about the prospects for the tour (he predicts a fierce England revival), whilst Tendulkar – blissfully free of pressure – sat in the sunshine and chatted to his five-year-old friend.



Focus of increasing adulation since his Test debut at 16: Sachin Tendulkar

Celebrate the millennium – blow up an eyesore

Lottery money should be used to banish ugliness, says **Colin Amery**

When it opened in 1970, Pimlico School was described as the weirdest building in London by no less an authority than Sir Nikolaus Pevsner. Near St George's Square, in Westminster, the school was the jewel in the crown of the Greater London Council's architects' department.

In those far off days, Pimlico School's design symbolised the brave new world of the comprehensive school. Now its owner, the City of Westminster, and its board of governors are to demolish it. The main reason is that its architecture does not work.

Strange that a school hailed as a great example of modern architecture has to be blown up after only 26 years. If you take a look at the building, it is four storeys high but stands on a sunken site. It is very long and thin. It is built of raw concrete and glass.

The main problem is that every classroom looks and behaves like a greenhouse. Its architects had to squeeze a school for more than 1,500 pupils on to a site that is only four acres. At the same time they wanted to give every classroom direct sunlight. This meant constructing a series of projecting rooms on the north and south sides of the central axis to lure sunlight down through sloping glazing into each room. The centrally located assembly hall is also glass-roofed. It frequently overheats, and is unusable. There is no air conditioning or cooling.

Overheating is not the only problem. Like so many buildings of the 1960s and 1970s, the school is made of hideous raw concrete, which is stained and filthy and difficult to clean. The Hayward Gallery and the Queen Elizabeth Hall on London's South Bank come out of the same stable, and today look even worse than Pimlico School.

The South Bank arts complex was regarded by the GLC architects as a masterpiece of "New Brutalism". However, its cyclopean character and tormented plans make it one of the worst and most disagreeable places to visit for a concert or an exhibition in the world. Of course, it is going to be preserved: it will be covered by a glass dome designed by Sir Richard Rogers, to be paid for by the national lottery.

In grasping the nettle and demolishing Pimlico School, Westminster Council is being much more sensible. Indeed, I want a national programme of demolition to commemorate the millennium. Removal of eyesores would be a highly popular use of lottery money. There are eyesores almost everywhere in Britain.

Pimlico School will be the first to be replaced by a scheme promoted by the government's private finance initiative. This means that the developer will be responsible for the complete rebuilding of the school as well as other elements on the site that may make the total development profitable.

What is curious is how such weird buildings ever get commissioned. How could anyone outside the narrow circle of architects and their trendy gurus ever expect these maverick designs to be taken seriously? Unfortunately, the arrival of all this lovely lottery cash for the arts and national heritage means that the power of the architectural pressure groups has become stronger again.

No one would dream of suggesting that architects are con men, but they do seem to be able to convince boards of laymen to build their wildest dreams. It has just happened at London's Victoria and Albert Museum. An architect who is best known as a theorist of Deconstructionism, called Daniel Libeskind, from the US, has won a competition for a new extension to the V&A which will cost more than £40m. The organisers will be asking for lottery support. His design is meant to puzzle and shock.

Libeskind is at present building a monument to the Holocaust in Berlin where his style seems matched to the horror of the events he is commemorating. The puzzling thing about the V&A joining the long lottery queue so quickly is the belief that a new building will do for them what the pyramid has done for the Louvre in Paris.

Libeskind's architectural approach is far from the rational elegance of I.M. Pei at the Louvre. There were several good entries in the V&A competition, especially from Nicholas Grimshaw and Sir Michael Hopkins – the museum's own house architects. At present we have in the UK some of the best architects in the world. But our architectural schools have been encouraging the promotion of frequently ludicrous ideas. As Pimlico School and the ghastliness of much of the South Bank attest, novelty soon dates and extreme architectural fads soon fall on their faces.

هكذا من الأرشيف

Era of ads for your eyes only

Cyberhosts are salivating at tailor-made Net marketing, says Victoria Griffith

Imagine that companies only aimed advertisements at those consumers likely to buy their goods. What a wonderful world that would be, say marketeers. No longer would advertisers waste money pitching their ads at indifferent viewers. Just as importantly, viewers would no longer have to sit and suffer through commercials about products in which their interest was slight to zero.

In fact, advertisers believe that cyberspace is moving them closer to their goal. The type of marketing known as customised advertising is being introduced to the Net. It works like this: cyberhosts – those who operate Net sites, primarily on the World Wide Web – "know" who is entering a particular site, and screen the appropriate advertisement. Consumers anxious about their weight, for example, might see an ad for Diet Coke, rather than Classic Coke. Wintertime browsers in the northern US might see an advertisement for ski equipment while Florida's residents saw a sales pitch for scuba gear.

During the last few months, the first customised campaigns have popped up on the Net. The 7-Up Company, for example, has created a spot on *Hotwired* – cyberspace's version of *Wired* magazine – aimed only at users of university computer terminals. A student entering *Hotwired* from Harvard, for instance, triggers the display of a 7-Up logo which, when clicked on, moves the browser to the company's site.

A businessman logging on to *Hotwired* does not see the 7-Up banner at all. The 7-Up Company designed the spot to target 18-to-24-year-olds, a large portion of whom attend university. The technique is not perfect. Middle-aged professors, presumably, are subjected to the advertisement along with their students. Yet the beverage company feels this early version of customised Net marketing gives it a greater return for its money than a more scattergun approach.

"We're concentrating on this age group right now, and didn't want to have to pay to reach demographic groups not on our current target list," says Daniel Stoothoff, assistant brand manager for 7-Up.

In another customised experiment, *Hotwired* viewers in Britain see a pitch for household goods retailer Argos, while American users see a range of other ads. Other tailored spots are likely to appear soon on the Net.

"The main focus of our business right now seems to be in tailored advertising," says Niraj Shah, a partner at Spinners, which specialises in cyberspace marketing. Some observers believe customised advertising will soon form the backbone of cyberspace marketing generally. (In the real world, as opposed to cyberspace, general media advertising rather than highly customised advertising is often the key component of a company's overall marketing effort).

"Tailoring the advertising is what differentiates us from television and other media forms," says Steven Carbone, president of Grey Direct E.Marketing, a division of Grey Advertising. "I think it's all going to be tailored in some form within the next few years."

However, others anticipate problems with tailored advertising. One risk is that consumers will start to see it as a Big Brother-style invasion of their privacy.

"Marketeers already use information about people," says Martin Nisenholtz, head of the electronic media arm of The New York Times. "But this is more in-your-face. If you watch a friend log into a site and see a whole different set of advertisements than you saw, you might be disturbed."

Privacy concerns may also influence how much information about consumers advertisers accumulate and hold on to. At present, a World Wide Web site can automatically track many viewers to specific computers. The system knows, for instance, when a browser is on a University of Wisconsin computer in the mid-western US, or on a Citibank terminal in Manhattan. Yet other users fall on to sites out of the black holes of the online services. "If someone is coming from America Online," says Shah, "we know almost nothing about them."

To get around this problem, content providers are starting to ask readers to "register" with their services. Every time a user logs on to a site, the computer takes note, differentiating between individual users logging on from the same terminal.

The Wall Street Journal, for instance, requires first-time readers of its interactive version to provide a great deal of information about themselves, including how many times they have traded stock in the past year. Armed with this data, the Journal hopes to provide customised opportunities to its advertisers. Unlike The New York Times, which says it is proceeding more cautiously, the Journal believes its registration form does not alienate readers.

"We don't find that people are turned off by the questions," says Stephanie Miller, advertising manager for the newspaper's interactive version. "In fact, 90 per cent of our readers fill out every line."

Some observers believe customised advertising will have an increasingly narrow focus. It may soon be possible, for example, to show an advertisement only to English-speaking people aged 49 or older who have purchased life insurance within the past year.

With more data to process, however, tailored advertising will pose a considerable technical challenge. "It is no small matter to have the computer decide in less than one second which advertisement you're going to see," says Richard Boys, a marketing manager at *Hotwired*. "But it *can* be done."

If the cultural and technical hurdles can be overcome, many marketeers say, customised advertising will probably yield big rewards. The 7-Up Company says it is enthusiastic about its first venture in the field, and recorded an impressive 5m hits in the first month.

Others remain unconvinced. They say it is impossible to be certain that someone is not interested in a particular company's products – or ads. Norman Lehoullier, who heads the interactive department at Grey Advertising, says: "If you're good enough at it, you can convince almost anyone that your product is worth buying."

The wonderful world of extremely well focused and customised advertising in every nook and corner of cyberspace is probably a lot further away than optimists imagine.

Tim Jackson

Imagination fails the British Library

Britain seems to be a year behind the US in its use of the Internet. Not merely in penetration terms; more importantly, many British companies and organisations still appear to view the World Wide Web as a one-way advertising medium, rather like a roadside billboard. They boast how up-to-date they are in "getting on the Web". Then they put up a site that contains only glorified junk mail. American companies learned from that mistake last year when Web users shunned sites that were all flannel and no content. In Britain, surfers are even less tolerant, for they know that the phone company charges them for every wasted second. Yet the message is taking time to get through to British Web site owners.

So it was a pleasant surprise last Thursday to receive an e-mailed press release from the British Library, the country's national copyright library, announcing that its vast databases are to be put on the Web this week. Until now, the library's catalogue, containing 17m items, has been open only to personal callers at its reading rooms, and to people at British universities with access to the Janet computer network.

Outsiders have had to pay for access via an expensive and hard-to-use service known as Blaise Line. Getting on the Web is a great coup for an organisation that has received a miserable recent press, thanks to its botched move to a new £500m building. The Web site widens the library's potential audience from an average 589 daily visitors to the main reading room to 50m Net users worldwide.

True, only the catalogue is going online, not the books themselves. But the British Library catalogue is a work of scholarship in its own right, lovingly compiled over more than a century. People are willing to pay good money for a single volume listing books in print; how much more valuable is an online catalogue of millions of books stretching back to the dawn of printing.

Perhaps surprisingly, the work required to allow Web users into the database took one solitary programmer in Harlow only four months of part-time work. The low cost of the exercise is a striking demonstration of the power of the Net in opening up to the world treasures of information previously locked inside mainframe computers.

But there is a catch – or rather a flaw so egregious that it spoils the project. Instead of making the catalogue available free, the library proposes charges ludicrously out of reach of everyone but professional librarians and overfunded researchers. The pay-as-you-go service is an annual subscription of $90, plus $12 an hour and 45 cents per full record retrieved; heavier users will find better value by paying $725 up front.

When I called in, spoiling for a fight, a nervous staffer said that the library is under pressure from the government to maximise revenue. Its existing online service brings in revenues of £250,000 from 1,000 subscribers, he said; the target is to double that. In the context of a budget of about £80m a year, the miserly narrow-mindedness of this takes the breath away.

But even if the misguided objective of maximising short-term revenue from the database were accepted as valid, the thinking is woefully ill-informed.

The starting point of any pricing decision should be costs. People who walk in off the street to consult the catalogue on paper cost the library money – not only in heat and light, and wear and tear on the carpets, but also in the time of dozens of staff who help people find their way around giant bound books into which catalogue entries are pasted, and who sort through the forest of paper on which erroneous book requests are made.

Those who consult the catalogue from their home PCs at night, by contrast, are actually saving the library money. The costs of preparing the database, high though they probably were, have long been written off. It is illogical to give away a service that costs a lot to provide, while charging the earth for a service whose marginal cost is almost nil.

But there is more. Free Net access could bring in more revenue than paying access, as a popular, useful Web site can sell advertising space. The going rate at present is about two cents per "impression", meaning per page viewed. If it sounds implausible to base a business plan on such an expectation, recall that US companies offering services free to the user and supported by advertising have raised at least $50m in commercial venture capital funding during the past year.

Even if the librarians know something the venture capitalists do not, and advertising never makes money, the library could still offer free service to individuals without cannibalising its existing customer base. It could set up a two-tier system where freebie users are limited in the number of records they can retrieve, in the hours they spend online, and in the help they receive. Professionals would receive priority access, technical support and a hand-book – and would willingly pay for the privilege.

There are dozens of ways in which free access could be achieved, and hundreds of companies that could set the whole thing up for the British Library in a matter of weeks. The sad thing is that most of them are in America. Here in Britain, you know, we do things differently.

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Cyber sightings

by Stephen McGookin

● Inventorlink (*http://london.globalnews.com/inventorlink*) is a London-based international inventions licensing company, and is inviting new product ideas, which can be e-mailed in from inventors worldwide. It has a nice welcome-page graphic and some interesting material.

● A listing of G7 Information Society Pilot Projects, instituted as a follow-up to the G7 information conference in Brussels last year, is available at *http://enterprise.ic.gc.ca/G7*

● The US Government Printing Office has a useful site (*www.access.gpo.gov/su_docs*) under the Keeping-America Informed banner. The site includes links to full-text government publications such as the Federal Register and Congressional Record, as well as details of official information available through federal depository libraries.

● TechNet (*www.worldbank.org/html/fpd/technet*) is an initiative of the Financial and Private Sector Development section of the World Bank. It aims to encourage the collaboration of science, technology and information sectors in development projects. It is a nicely designed site, with an archive of key resources, details of related events and a conference forum.

● Brokers Cutter and Co (*www.stocktrader.com/summary.html*) has daily tables of the US Treasury yield curve, long bond and TBond futures performances, and more.

● Bob Koppel and Howard Abell's books on trading techniques are brought to life through their intriguing Innergame site (*www.intermkt.com/innergame*). The MkSim Market Simulation page (*www.mksim.com*) has lots of interesting information on directional indicators and markets data.

● The Environmental Law Institute (*www.eli.org*) has good information about environmental protection issues and lots of research material of use both to professionals and interested amateurs.

● The US Bureau of Land Management's Wild Horse and Burro Programme has a site (*www.blm.gov/whb*) where you can find out the requirements for adopting a wild horse or burro, should you be so minded.

● Funniest site of the week is Politically Correct Bedtime Stories, which features fascinating versions of the Three Little Pigs, Goldilocks and the rest. Find it at *http://w3.macdigital.com/macdigital/pcbs*. Fun for, er, most of the family.

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Financial Times on the World Wide Web
www.ft.com
or
www.usa.ft.com
Updated daily

Amon Cohen reports on why the price of renting a car has been rising sharply on both sides of the Atlantic

An unwelcome import

One of the prime laws of business travel is that US trends eventually have an impact on Britain and the rest of Europe. These changes are generally benign, but the latest export from the American car rental business is causing no end of problems for UK companies and their clients.

Rising car-hire rates have already hit the pockets of US business travellers, and the trend is crossing the Atlantic. The increases are mainly the result of moves by carmakers to restrict the number of vehicles available to the rental groups, which have a knock-on effect for the consumer.

Car hire rates in the UK have risen by at least 10 per cent, and in some cases more than 20 per cent in recent months, and are tipped to jump still higher by the end of this year. In addition, renters are being confronted with a barrage of additional charges, for everything from one-day hire to picking up cars at an airport. Indeed, there is a chance that in certain extreme cases travellers may not be able to find a hire car at any price.

These developments also partly reflect a hardening of prices across the UK travel industry following an upturn in the economy and, as a result, demand for business travel facilities.

But one of the main factors driving the rise is the stance of carmakers, who argue that they wish to control the number of nearly-new vehicles on offer in the second-hand market, where over-supply has dented the sales of new vehicles.

For similar reasons, carmakers are also reducing their discounts and marketing support for rental companies, while insisting that those companies retain their vehicles for longer – or more miles – before selling them on. The net result is that rental companies are paying more for vehicles, and watching residual values plummet.

"I would say there has been something like a 25 per cent to 30 per cent increase in costs over the last 18 months," says Alun Cathcart, chairman and chief executive of Avis Europe. Robin Davis, Hertz Europe's vice-president for strategic planning, estimates that the rise in fleet costs has been between 30 per cent and 50 per cent per annum.

For now, the problem is a British one because, says Cathcart, "the same circumstances do not prevail on the continent [of Europe] in terms of over-supply". If anything, car rental prices have been falling in Germany.

Furthermore, the car-hire companies argue that a key factor in Britain is that manufacturers have flooded the nearly-new market with sales tactics such as 30-day return guarantees and "false registration" – the practice of bumping up market share by giving showrooms more demonstration models than they need and allowing the vehicles to be sold as second-hand cars.

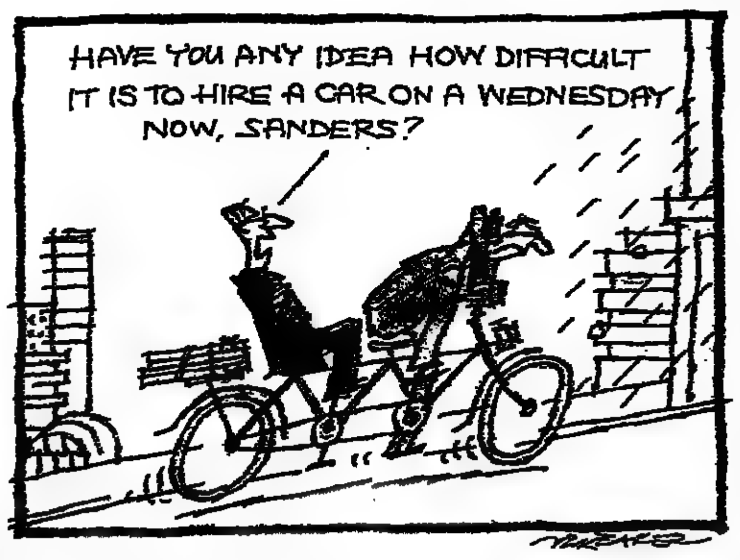
The upshot is that the recent restriction of vehicles available to car-hire companies has eight adverse consequences for the business traveller:

- Price rises. In spite of the rise in rental costs, car-hire companies claim customers are still receiving a good deal because prices had been falling in real terms for 10 years. "We didn't put up our prices at all for years, which was a mistake," says Freddie Aldous, chairman of EuroDollar International, who is also chairman of the European Car and Truck Rental Association.
- Shortage of vehicles. "If things carry on the way they are for the next couple of years, it is a distinct possibility there will not be enough cars to go round," says Cathcart. Neil McCrossan, UK sales director at EuroDollar, claims this is already happening with some competitors, although clients with corporate contracts are less likely to suffer than one-off renters. There are also fewer cars waiting around simply to be used on Wednesdays and Thursdays, the industry's peak days. Renting on Wednesdays and Thursdays is becoming particularly tough.
- Airport supplements. Because the UK is reckoned to be one of the most competitive car-hire markets in the world, rental companies have generally not levied a surcharge at UK airports, despite additional overheads such as courtesy buses and longer opening hours. However, most car-hire groups now charge a 10 per cent supplement at airports, putting the UK in line with the rest of Europe and the US.
- Delivery and collection charges. "These are now the norm rather than the exception," says McCrossan. The average home delivery charge is about £10.
- Peak pricing. This is not yet a reality in the UK, but the idea is being examined. "Logic would dictate that on a Wednesday or Thursday, when we are busier, we should charge more," says McCrossan.
- Mileage caps. The practice of imposing a daily limit on mileage and charging for any additional distance is starting to appear, particularly on long-term rentals of more than 28 days. Hertz has introduced a cap of 300km per day in France, says Davis, who adds: "It is quite a generous cap and won't affect most customers."
- Short-rental premiums. In the past, renters paid the same daily rate for a hire period of between one and six days. Under the new austerity, they have to pay for the proportionally higher administrative costs of ultra-short rentals. Most companies now charge more per day for a one- or two-day rental than for a three- to six-day rental.
- Old cars. Business travellers are having to get used to rental cars that are nearer 12 months old than six months old, and which have 10,000 or more miles on the clock.

Despite all this, Aldous believes that common sense could improve matters. His association is organising meetings with car companies to seek a rapprochement. He says: "It is the lack of dialogue between the rental industry and manufacturers that has caused these problems."

On the increase: extra costs push up car hire rates

1) Higher tariffs
2) Lack of availability
3) Airport supplements
4) Delivery/collection charges
5) Peak pricing
6) Mileage caps
7) Short-rental premiums
8) Older cars



Flight from the paper age

British Airways will start testing consumer reaction to ticketless travel later this year on a UK route, probably between London and Scotland, writes Roger Bray.

Passengers carrying only hand luggage will be able to by-pass the normal check-in procedure. When they arrive at the airport they will swipe a credit or charge card through a machine and receive a boarding pass. This is likely to be the first part of a three-stage trial. BA is later expected to test the system on a European route, then on long-haul flights.

Like many European carriers, including Swissair, BA is being cautious in its approach to the paperless age. First it wants the industry to agree common standards so that ticketless travel can be introduced internationally, allowing passengers to switch from one airline to another without presenting tickets at check-in.

Meanwhile, for passengers who feel uneasy unless they have conventional travel documents, BA says the automated ticket and boarding pass has taken off in a big way during the past year. The automated pass can be issued by a travel agent, and allows travellers with hand baggage only to go straight to the departure gate.

Travel News • Roger Bray

Carrier eats its greens

Lufthansa goes organic. The German airline is offering first-class and business-class passengers on flights between Germany and the US the choice of an eco-friendly menu.

All ingredients, from steak to vegetables, are being produced under carefully controlled farm conditions. The move was originally prompted by Germany's environmental protection agency, which helped LSG, Lufthansa's inflight caterer, trace organic producers who could come up with sufficient quantities of produce on the just-in-time basis airlines require.

However, there have been some problems. As well as being available in limited amounts, eco-friendly foods often cost more than the mass-produced variety.

Claiming to be the first airline to adopt such a policy, Lufthansa will also make its new menus available to economy-class customers by the end of the year. If passengers approve, the new menus will become a permanent feature.

Stuffed Turkey

Business on the Bosphorus? Don't count on getting a hotel room in Istanbul next month when the second UN "Habitat" conference takes place there.

Called to discuss the problems of urban living as an ever greater proportion of the world's population gravitates to cities, it is reckoned to be the biggest international gathering of its kind ever organised, and is expected to attract more than 25,000 delegates. An associated trade fair is likely to attract some 60,000 visitors.

The Turks have prepared a "conference valley" in the city centre, close to Taksim Square and the leading hotels.

Side meetings will be held at various locations around the city's new international conference centre, which seats 4,500, and the entire area will be turned into a pedestrian zone, worsening Istanbul's already appalling traffic congestion.

The conference runs from June 3 to June 14, but pressure on accommodation and transport will obviously start earlier – and linger longer.

Warning on Mexico

Travellers are warned of a significant increase in the danger of armed robbery in Mexican cities.

As the country's economic and political troubles continue, the UK Foreign Office says care should be taken at airports and popular tourist sites as well as at bus stations and on public transport.

Travellers are advised to stick to official airport taxis, including those where you buy a fixed-price ticket at a kiosk before starting your journey. In quiet urban areas, take taxis only from ranks *(sitios)*.

There is also a risk of robbery outside major cities, particularly in the states of Oaxaca, Chiapas and Campeche.

Delays hit Europe

Flight delays in Europe continue to worsen. The Association of European Airlines says punctuality during the first three months of this year fell to a level close to that suffered during last year's summer peak.

A total of 18.3 per cent of its members' European services were delayed, compared to 14 per cent in the same quarter of last year, the association said.

Although severe weather worsened the deterioration, the association claims that airport and air traffic control problems were to blame for nearly half the delays, compared to only 38 per cent in the first quarter of last year.

Choice of discounts

Hotel discounts for small businesses are on offer from Choice International, the mainly budget-to-middle-price hotel franchise chain which has just published its first European directory.

Companies with 100 employees or fewer which enrol in the group's SOS programme get a 15 per cent reduction on the first 10 rooms booked, and a 20 per cent reduction thereafter. Choice has hotels in 12 western European countries, one property in Russia and one in the Czech Republic.

Loo with a view

Japan Air Lines is enlarging first-class lavatories on jets flying from Tokyo to London and New York so that they incorporate windows. The first of the re-vamped toilets, which will be 50 per cent bigger and sport gold-plated fixtures, will be installed by July.

Likely weather in the leading business centres

	Mon	Tue	Wed	Thur	Fri
Tokyo	20	18	21	22	24
Hong Kong	28	27	27	28	27
London	13	14	16	18	17
Frankfurt	16	18	19	19	19
New York	34	31	28	25	20
L. Angeles	22	22	26	28	24
Milan	20	21	23	22	22
Paris	14	15	19	18	19
Zurich	17	18	19	17	18

Information supplied by Meteo Consult of the Netherlands. Maximum temperatures in Celsius

OPENINGS

BERGEN Over the next six weeks Britain's Royal Ballet will tour to Norway, Denmark, Greece, Argentina and Israel. The tour opens with Twyla Tharp's "Mr Worldly Wise" (above) at Bergen's Grieghallen on Wednesday and Thursday, followed by a week of performances at the Royal Danish Theatre in Copenhagen. Tour repertoire includes Kenneth MacMillan's "Manon" and Anthony Dowell's production of "Swan Lake".

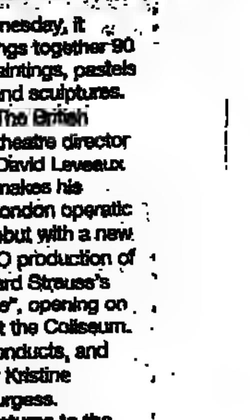
GLASGOW The biggest-ever exhibition of the work of Charles Rennie Mackintosh, Scotland's most celebrated architect and designer, opens at the McLellan Galleries on Saturday. It brings together over three hundred examples of Mackintosh's finest work (right), including material never previously exhibited. The show will move to New York in November, then Chicago and Los Angeles.

BRUSSELS "A King, Riding", a new opera by Butch composer Klaas de Vries (b. 1944), receives its world premiere tomorrow at the Cirque Royal. The work, which De Vries describes as scenic oratorio, is based on Virginia Woolf's "The Waves". Claudia Marthaler's production, cast includes ... Ragin and ... moves to ... month as part of the Holland festival.

WASHINGTON An exhibition opening at the National Gallery of Art on Sunday studies the ... of the international ... painters who ... Rome and Southern ... end of the eighteenth century and beginning of the ... the heart of the ... a selection of works by Corot. The show moves to Brooklyn in the autumn and Saint Louis early ...

LONDON At Sadler's Wells on Thursday, "Calamity Jane", the famous 1950s Americana musical, has its London opening after a three-month national tour. Gemma Craven (right) stars in the role originally fashioned for Doris Day.

After the last Impressionist exhibition in 1886, Edgar Degas virtually stopped exhibiting, and his work of the following 30 years has remained little researched and largely unknown to the general public. A major exhibition at the National Gallery aims to shed light on this period. Opening on Wednesday, it brings together 90 paintings, pastels and sculptures.



The British theatre director David Leveaux makes his London operatic debut with a new ENO production of Richard Strauss's "Salome", opening on Saturday at the Coliseum. Andrew Litton conducts, and the cast is headed by Kristine Ciesinski and Sally Burgess.

Zoe Wanamaker returns to the London stage tonight, starring as a dog in the title role of "Sylvia". The play, by A R Gurney, comes to the Apollo Theatre from New York. Michael Blakemore directs, the cast includes Maria Aitken.

Dawn Upshaw (centre) as Theodora: her duets with David Daniels raise the music to its most exalted level

Alastair Muir

An unexpected Handel

Glyndebourne once again surprises and delights, writes **Richard Fairman**

Don't bother chilling the wine. In 20 years of going to Glyndebourne I have never known the festival open on a day as cold as it was last Friday. During the interval, the hardy few outside the theatre huddled together wrapped in overcoats and blankets, trying to finish the strawberries and cream before frostbite set in.

There had been some predictions in advance that the reception inside would be just as chilly, but Glyndebourne proved the doubters wrong, as it has in the past.

The new regime sees no reason to pander to its audience. This year's opening new production – Handel's *Theodora* – looked in every way a self-imposed trial, as though the festival wanted to prove it could surmount the most intimidating obstacles and still prise open the hearts and minds of its traditional supporters, not to mention their wallets.

There is no long history of Handel being performed at Glyndebourne. Just like the old, the new theatre is blessed with a scale and acoustics that are almost ideal, but no Handel opera has ever been staged there. *Theodora* is not an opera; it is an oratorio. Why choose it when there are 30 or more operas crying out to be staged? That's anybody's guess, but I find it difficult to believe there will be a single voice raised against the decision after Friday's opening performance. As one profoundly beautiful aria followed another, the audience sat as if stunned. In the concert-hall *Theodora* is sadly neglected, but here the historical tale of Christians imprisoned and martyred for their beliefs at last found a captive audience, ready for conversion.

There could be no more inspiring evangelist for its cause than William Christie, the baroque specialist making a welcome first appearance at the festival. As in his Purcell (notably last year's *King Arthur* at Covent Garden) Christie treads lightly and elegantly through the music, affecting a French sensitivity of expression. The music is stretched to yield its maximum potential and the Orchestra of the Age of Enlightenment gave him first-class playing, which for long stretches enveloped the theatre in a wondrous feeling of calm and concentration.

The audience sits in suspense lest somebody should shatter the atmosphere. Yes, there is an *enfant terrible* lurking in the wings. Peter Sellars, scourge of the establishment after his production of *Die Zauberflöte* in 1990, is back. But, wisely, he too allows the music to cast its spell for much of the time, drawing out the spiritual serenity in Handel's score with a masterful simplicity – with just a white box on stage, designed by George Tsypin, and subtle lighting that illuminates or shadows every change of mood.

Giant silhouettes loom over Irene as she makes her entrance in act two, lonely and isolated. Christie and Sellars will Lorraine Hunt to sing with a supreme command of the long vocal line and breathtaking quietness. Instinctively, she rises to the challenge and goes further still, sending a shiver down one's spine with her lacerating cry at the refrain: "Defend her, heaven." The voice is a proud baroque mezzo; the singing is riveting at every turn. If there is a finer Handelian singer at work at the moment, I have not heard her.

Unfortunately, the gestures Sellars has devised make it look as though everybody is involved in a signed performance for the deaf. Then there is also his need to put across a moral of his own. Unable or unwilling to enter into the different worlds of the operas he produces, Sellars always sticks with the world he knows. This is the contemporary US, usually seen from the underside. Did somebody mention Waco? Handel's story of Christians persecuted by Romans turns into a religious sect under violent siege from the American rightwing.

Valens, the president, becomes a smart-suited political demagogue, all toothy-grinned insincerity, a wickedly satirical caricature by Frode Olsen. He sings his first aria on a stretcher while being treated for heart failure, and the second listing tipsily around the stage with a bottle. His two subordinates are gun-toting special squad officers. Septimius, sung with a sure vocal grasp by Richard Croft, is the loyal side-kick. Didymus is the one with a conscience and David Daniels' sweet and pure counter-tenor embodies his idealism to perfection. This was more exemplary Handelian singing.

The two duets for him and Theodora raise the music to its most exalted level. Dawn Upshaw in the title-role is too often inclined to fuse over the vocal line for expressive emphasis, but in the duets she allows the voice to flow more freely. As she and Daniels join in their rapturous farewell to life, "Streams of pleasure ever flowing", armed law enforcement officers strap them on to stretchers and wheel up the apparatus to administer execution by lethal injection. It really is not a problem, you know. Just shut your eyes and listen.

Sponsored by Citibank. Until June 21.

The Mansion House of the South

Everyone seeks to make a point with the Parthenon, writes **Peter Aspden**

Denuded of its most valued treasures, standing just about erect amid the belching confusion all around, the Parthenon sometimes struggles to live up to the picture postcard purity demanded by the modern traveller. Yet spend a hot summer's night watching Euripides from the top tier of the Herodus Atticus theatre, glance upwards from the stage towards the floodlit monument, and a curious *frisson* hits you.

Curious because the Parthenon's majesty is unusually understated for a landmark of such renown. It is, of course, the archetypal vision of Periclean Athens, democracy's defining moment, a building of the people, for its gods. But it is not just its political associations that account for its inhibited dominance.

Despite its regular appearance, the Parthenon is famously subtle in conception and design. Its architects understood that straight lines created an unwanted impression of rigidity and oppression; hence the scarcely visible upward curvature of all horizontal planes, and the inward inclination of the columns of the outer portico.

The "refinements", as they were known, give the Parthenon its top notes of grace and harmony, its reluctant grandeur. Famous figures who understood the grandeur – but not the reluctance – have posed in front of the Parthenon in search of self-aggrandisement. Serious figures: Dwight Eisenhower, George Bernard Shaw, Somerset Maugham; some not-so-serious: John Wayne, Jayne Mansfield, who knew a thing or two about curvature. She gleefully stood for photographers in a 1957 visit to give her image some "class", but Athena she was not.

All these bizarre pictures are reproduced in *The Parthenon and its Impact on Modern Times**, as well as the more chilling image of the Nazi swastika flying high over occupied Athens. German officers, who were nothing if not sensitive to the etiquette of high culture, flew it alongside the Greek flag, to make a point. But then again everyone has sought to make a point with the Parthenon: classicists, romantics, futurists, surrealists. This lavishly-illustrated book shows exactly how timeless its appeal has been.

It is fashionable today to feel sorry for the Parthenon, having to cope with the filth and pollution generated by Greece's chaotic capital city. But in his fine opening essay, Savas Kondaratos, professor at the Athens School of Fine Arts, reminds us that this is far from a novel reaction.

Back in 1182, Bishop Michael Choniates Acominatus, arriving in the city with visions of the Golden Age of Pericles, wrote: "Alas for what I suffer and say and write! I live at Athens, but see no Athens – rather, doleful dust and hollow happiness." Ironically, it was not until after much of the Parthenon had been destroyed by a mortar bomb in the Turkish-Venetian war of 1687 that it began to acquire the cult status it continues to enjoy. The leading writers and philosophers of the Enlightenment found in ancient Greece a profound expression of the ideals in which they believed.

By the end of the 18th century, Schiller and Goethe talked freely of each other's "Greek spirit", even though neither had actually visited the country. The Romantic movement which followed, though fiercely anti-Classical, also found magic in the Parthenon; for the Romantics, the ruined building represented that most powerful of emotions, nostalgia for a lost, glorious era. They were aided in their reverie by the plight of the Greeks, then struggling to break free from Ottoman rule.

Although one of the most famous philhellenes among their number, Byron, remained unimpressed by the Parthenon – he remarked coldly that it was "very like the Mansion House" – the Romantics found it exquisitely melancholic to reflect on the world of antiquity which had disappeared for ever. Unwittingly, they gave fresh impetus to the neo-classical architectural movement which saw near-copies of the Parthenon appearing all over the world: the German Valhalla in Bavaria, the Second Bank of the United States in Philadelphia, the New York Customs House.

Surely the modernists of the beginning of the 20th century would find the traditional forms of the Parthenon too fusty for their iconoclastic tastes? But once again, the old building saw off its challengers. In his controversial book *Vers Un Architecture*, Le Corbusier dared to juxtapose photographs of the Parthenon with pictures of cars, ocean liners, aeroplanes. It was a curious, but unmistakeable act of homage from the undisputed champion of architectural modernism.

Le Corbusier charmed his Athenian hosts when, in 1933, he left a conference of architects waiting for an hour and a half before breathlessly announcing: "Oh dear, I forgot all about you. I've been on the Acropolis." In a later visit, he declared in less winsome mood: "I did what I did with that Acropolis in my bowels."

Today the Acropolis and the Parthenon are the subjects of bitter disputes: between scientists, who argue how best to preserve what is left of the structure; between the cultural ministries of the UK and Greece, who battle for the right to possess the marbles removed from the temple by Lord Elgin; between scrummaging tourists who need to check off yet another world monument in their ersatz Grand Tours; between advertising agencies who trump one another in their attempt to tie their product to the temple on the hill.

Ugly scaffolding and uncouth polemic now surround the Parthenon, making it difficult for new generations to understand what all the fuss is about. But wake up early on a bright morning, take the impossibly narrow paths which lead to the temple from Plaka, past tiny whitewashed houses, and the Mansion House of the South can still exert its aged magic.

* *The Parthenon and its Impact on Modern Times, edited by Panayotis Tournikiotis, Harry N. Abrams, £55, 368 pages.*

Jayne Mansfield: posing in front of the Parthenon in search of self-aggrandisement . . .

INTERNATIONAL ARTS GUIDE

■ AMSTERDAM

AUCTION
Sothebys Amsterdam
Tel: 31-20-5502200
● Chinese and Japanese Ceramics and *Works of Art*: including a collection of Japanese porcelain manufactured by order of the East India Company; 10.30am & 2pm; May 21

■ BERLIN

OPERA
Komische Oper Tel: 49-30-202600
● The Legend of the Invisible City of Kitezh: by Rimsky-Korsakov. Conducted by Shao-Chia Lü and performed by the Komische Oper. Soloists include Fedin, Rose and Neumann; 7.30pm; May 21

■ BRUSSELS

THEATRE
Rideau de Bruxelles
Tel: 32-2- 507 83 60
● La chute des aveugles: by Gert Hofmann. Directed by Luc van Grunderbeeck. *The cast includes* Isabelle Bomans, Bertrand Dewolf, Phillipe Druet and Michelangelo Marchese; 0.30pm; May 21, 22 (8.15pm), 23, 24

■ COPENHAGEN

DANCE
Det Kongelige Teater
Tel: 45-33 14 10 02
● Le Corsaire: a choreography by Marius Petipa to music by Adam, Drigo, Minkus and Puoni, performed by the Kirov Ballet; 8pm; May 21, 22

■ DRESDEN

OPERA
Sächsische Staatsoper Dresden
Tel: 49-351-49110
● Jenufa: by Janácek. Conducted by Wolfgang Rennert and performed by the Sächsische Staatsoper Dresden. Soloists include Anny Schlemm, Roland Wagenführer and Dame Gwyneth Jones; 7pm; May 21, 24

■ DUBLIN

CONCERT
National Concert Hall - Geoláras Náisiúnta Tel: 353-1-6711888
● Conor Linehan, Morgan Crowley and Cathal Synott: the pianist and counter-tenors perform works by Purcell, J.S. Bach, Synott, Ravel and Fauré; 8pm; May 21

■ GLASGOW

CONCERT
Glasgow Royal Concert Hall
Tel: 44-141-3326633
● Sarah Brightman: performance by the singer, accompanied by the Royal Scottish National Orchestra. The programme includes works by Gershwin, Sondheim and Lloyd Webber; 8pm; May 23

■ HANOVER

EXHIBITION
Sprengel Museum
Tel: 49-511-1683875
● Zeitströmungen: exhibition of the collection of modern art of the Niedersächsische Sparkassen-stiftung. The collection includes works by German artists such as *Georg Baselitz, Sigmar Polke,* Gerhard Richter and Rebecca Horn. The display features some 100 works on canvas and paper, as well as 40 sculptures; from May 22 to Jul 7

■ HELSINKI

EXHIBITION
The Museum of Foreign Art, Sinebrychoff Tel: 358-0-17336360
● Joy and Fury. From Baroque to Symbolism: exhibition of German and Austrian paintings from the 17th to the 19th century; to May 22

■ LISBON

CONCERT
Grande Auditório da Fundação Gulbenkian Tel: 351-1-7935131
● Orquestra Gulbenkian: with conductor Muhai Tang and pianist Joaquin Achúcarro perform works by Chabrier, De Falla, Halffter and Ravel; 9.30pm; May 23, 24

■ LONDON

CONCERT
Royal Festival Hall
Tel: 44-171-9604242
● Sigrantia Ballada: by Jolas. World premiere, performed by the *Philharmonia Orchestra* with conductor Yan Pascal Tortelier and baritone David Wilson-Johnson; 7pm; May 21
DANCE
Royal Opera House - Covent Garden Tel: 44-171-2129234
● The Birmingham Royal Ballet: perform Ashton's Birthday Offering to music by Glazunov and Bintley's Carmina Burana to music by Orff. Soloists include Sabrina Lenzi, Kevin *O'Hare, Catherine Batcheller and* Michael O'Hare; 7.30pm; May 21
EXHIBITION
Victoria & Albert Museum
Tel: 44-171-9388500
● Leighton Centenary Celebrations: exhibition on the occasion of the centennial of the death of Frederic, Lord Leigthon (1830-1896). Centrepieces are the newly-restored frescoes The Arts of Industry Applied to War and The Arts of Industry Applied to Peace; to Sep 8
JAZZ & BLUES
Queen Elizabeth Hall
Tel: 44-171-9604242
● John Abercrombie Trio and the Peter Erskine Trio: perform jazz music; 7.45pm; May 22
OPERA
London Coliseum
Tel: 44-171-8360111
● Fidelio: by Beethoven. Conducted by James Holmes and performed by the English National Opera. Soloists include Anthony Rolfe Johnson, Kathryn Harries and Keith Latham; 7.30pm; May 21

■ MADRID

EXHIBITION
Museo Nacional Centro de Arte Reina Sofia Tel: 34-1-4675062
● David Smith: retrospective exhibition devoted to the work of this American sculptor. The display includes some 40 sculptures created between 1933 and 1965. Alongside these works approximately 50 photographs of the artist by Ugo Mulas are shown; to Jul 1

■ NEW YORK

AUCTION
Christies, Manson & Woods ***International, Inc.***
Tel: 1-212-546-1000
● European Furniture and Decorative Arts from the Collection of the late Joanne Toor Cummings: sale from the estate of Joanne Toor Cummings, former wife of the late Nathan Cummings, founder of the Consolidated Foods Corporation, now known as the Sara Lee Corporation; 2pm; May 21
EXHIBITION
The Metropolitan Museum of Art
Tel: 1-212-879-5500
● Enamels of Limoges, 1100-1350: the first international exhibition devoted to the works produced in the workshops of Limoges, France, between the 12th and 14th century presents some 150 examples of enamelwork from the collections of the Metropolitan, the Louvre, and the church treasuries of France; to Jun 16

■ PARIS

CONCERT
Théâtre de l Opéra Comique
Tel: 33-1 42 44 45 46
● Purcell et le Théâtre: The King's Consort with conductor Robert King and soprano Emma Kirby perform works by Purcell, including excerpts from The Indian Queen, The Fairy *Queen, Abdelazer, King Arthur* and Les Lamentations de Didon; 8pm; May 22
EXHIBITION
Centre Georges Pompidou
Tel: 33-1-44 78 12 33
● L'informe: exhibition focusing on the history of Modernism. The display includes works by Pollock, Duchamp, Fontana, Smithson, Warhol, Hesse, Dubuffet, Rauschenberg and others; from May 22 to Aug 26

■ ROME

EXHIBITION
Museo Nazionale del Palazzo Venezia Tel: 39-6-6798865
● Felicien Rops. La modernità scandalosa: retrospective exhibition devoted to the work of the Belgian graphic artist Felicien Rops (1833-1898), who settled in Paris in the mid-1870s and acquired a reputation for satanism and decadence; from May 22 to Sep 1

■ VIENNA

CONCERT
Konzerthaus Tel: 43-1-7121211
● Christiane Oelze: accompanied by painist Leonard Hokanson. The soprano performs songs by *Schubert, Webern, Wolf and R.* Strauss; 7.30pm; May 21

Listing compiled and supplied by ArtBase The International Arts Database, Amsterdam, The Netherlands. *Tel: 31 20 664 6441*

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Nonstop live coverage until 15.00 of European business and the financial markets

17.30
Financial Times Business Tonight

CNBC:

09.00
Squawk Box

10.00
European Money Wheel

18.00
Financial Times Business Tonight

A dip in a tempting pool

Hong Kong is striving to set up a pension scheme which will boost its markets, reports John Ridding

Hong Kong's financial sector is limbering up in anticipation of a plunge into a deep, new pool of pension funds. Government officials and industry representatives are racing to complete proposals for a compulsory pension scheme, with the hope of implementing legislation before Hong Kong's return to China next year.

The Mandatory Provident *Fund scheme will provide a* safety net for the territory's ageing population – the proportion over 65 is expected to rise from 10 per cent to about 20 per cent during the next 40 years. At present, only a third of the territory's 3m workforce is covered by a pension plan.

But the scheme would also give a substantial lift to Hong Kong's financial sector, creating a pool of contributions for fund managers and stimulating the territory's capital markets.

"We see it as an enormous *opportunity, as do many others,*" says Mr Greg Willis, head of Provident Fund Services, which was set up last month by HSBC Group to prepare for the launch of the scheme. "By the time the funds level off in 25 years or so [when contributions equal pay-outs], we are talking about trillions of dollars of capital."

Mr Rafael Hui, financial services secretary and a champion of the scheme, has little doubt about the benefits for the development of Hong Kong's capital markets. He estimates that proceeds from the MPF, which will require workers to *pay 5 per cent of their monthly* salaries to the scheme, will add between HK$30bn (£2.5bn) and HK$40bn annually to the territory's pensions industry.

For Mr Desmond Chan, director of Jardine Fleming Investment Management Services, the potential benefits extend to banks, insurance companies, trustees and custodian businesses.

"This will help secure Hong Kong's position in the face of competition from other regional centres," he says, adding that the growth of pension funds will also stimulate the territory's debt market.

But Mr Chan, one of a 22-member panel of experts working on the scheme, also acknowledges concerns in some areas of the community and the complexities involved in the preparations. "The timetable is very tight," he admits.

After decades on the drawing board, an enabling act, which cleared the way for detailed proposals to be drawn up, was passed in February. And *although China has hinted at* acceptance of the scheme, its planned abolition of the territory's elected legislature and the hiatus of the handover could again delay its introduction.

Critics warn that the scheme threatens family-based social institutions and creates a burden for business which will have to match employee contributions to retirement schemes.

Among those with concerns are some *of the territory's* prominent businessmen. Mr Gordon Wu, managing director *of Hopewell Holdings,* the infrastructure group, sees a mandatory pension scheme as a threat to traditional Hong Kong Chinese values in which family ties provide social cohesion. Care for the elderly by younger family members is a central plank in this system.

Others are concerned that the introduction of compulsory contributions will undermine Hong Kong's low-tax business environment. "*Pensions are a* slippery slope," says one executive. "If you start *forcing* contributions, then we will face the same problems that have weakened the west."

Supporters of the scheme argue that far from being a cause of looser family ties, the pension scheme is a recognition of what is now a well-established trend. "There is already an increasing demand for pensions because there is less certainty that families will support the elderly," says Mr Chan. "Will my son pay for me when I am 65? I don't know."

For now, business *has given* guarded support to the scheme, in return for a say in its draft*ing. However, there are still* complex issues to be resolved on matters such as the treatment of existing pension schemes and the scope of investment guidelines.

In particular, the structure of the scheme must provide a trade-off between the security of investments and the ability of fund managers to get adequate returns. Mr Hui believes the MPF can achieve both objectives because management of the investments will be in the hands of the private sector.

He contrasts this with the Centralised Provident Fund system, favoured by Singapore, in which funds are managed centrally. The fund, notes Mr Hui, achieved average returns of less than 6 per cent a year during the *1980s, a rate* that fell short of salary inflation. Partly as a result, Singapore has moved away from a completely centralised system.

"The fund is against the basic principle of economics – i.e. free market competition – which has made Hong Kong so successful," says Mr Hui.

But if Hong Kong's instincts are more liberal than Singapore's, some worry they may not prove liberal enough. "It now seems that the government wants a large chunk of *assets to stay in Hong Kong* dollars to support the currency peg with the US," says one fund manager. "The industry is pushing hard for freedom of choice for investors."

Of equal concern to the financial community are the fees that can be charged for pension fund management and the margins they can achieve.

"It is potentially labour- and systems-intensive," says Mr Mark Konyn, senior director of institutional business at the Hong Kong arm of Fidelity Investments. "The backbone of this economy is small business, so you are looking at a dispersed client base."

A broader question is whether enough attention has been paid to securing support from employees who will have to contribute to the scheme.

"Success will depend on public backing during the implementation of the scheme," says Mr Ian Perkin, chief economist of the Hong Kong General Chamber of Commerce. "But employees are not used to giving up part of their salaries."

Government officials and the financial sector are optimistic that such obstacles will be overcome. "The idea of retirement security has gained momentum," says one of the scheme's advisers. "And there is a lot of political determination from the government."

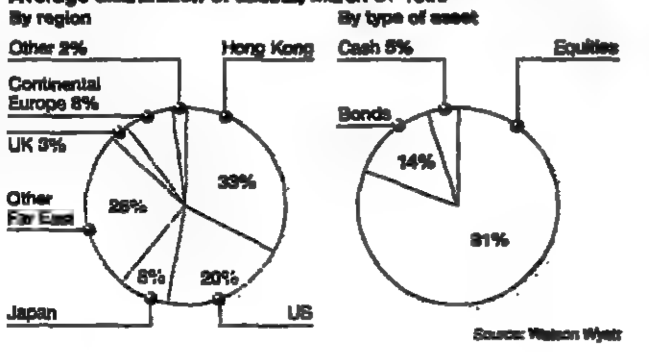
An executive at a US investment bank preparing for the new scheme agrees that the technical details can be completed on time. "There is a lot of hard work left," he says. "But the pensions pool is looking very tempting."

Hong Kong pensions: the boat comes in

Market value of retirement fund assets, end 1994

	US$bn
Australia	146
Hong Kong	20
Indonesia	5
Japan	201
Malaysia	4.1
New Zealand	11
Philippines	Less than 1
US	4,500

Average distribution of assets, March 31 1996



Source: Watson Wyatt

LETTERS TO THE EDITOR

Number One Southwark Bridge, London SE1 9HL

We are keen to encourage letters from readers around the world. Letters may be faxed to +44 171-873 5938 (please set fax to 'fine'). e.mail: letters.editor@ft.com Translation may be available for letters written in the main international languages.

Interactive future for digital TV

From Dr Stephen Castell.

Sir, With the UK Broadcasting Bill currently in its committee stage, Christopher Dunkley's sober reflection on the "quantum leap" claimed for the coming digital multichannel television paradise is timely ("Technology is no substitute for talent", May 15). He has missed the point, however, in asserting "that is not to say that [we] will want 460 or 920 channels".

Digital terrestrial television (DTT) need not, must not, be allowed to develop as just hundreds more of the same old TV, programmed from the same old providers, delivered in the same old pre-scheduled way according to someone else's idea of what constitutes material of interest to an audience/advertiser. The real excitement and potential of DTT should be the opportunity for individual experimentation, by new content providers, with new forms of interactive digital multistream services unfettered by anyone's bunkered notion of what is, or is not, "broadcast entertainment".

DTT should be firmly part of a UK digital communications infrastructure regime where content is divorced from bandwidth, "software is king", and anyone can take part (as both provider and consumer), interactively. Mr Dunkley says GIGO (garbage in, garbage out) will remain true and "The machine will not improve the raw material". But that is surely how it should be: "It may (in your opinion) be garbage, but at least it's all mine !". The maxim for this new interactive, participative "citizen's band" DTT is surely: "Turn on, tune in, hit return". We will want 460 or 920 channels, provided we can all have equal access to them as both supplier and user of programme material.

Stephen Castell,
chairman
Channel 5 digital Television,
78D Newland Street,
Witham, Essex, UK

Investment and management key to curing manufacturing malaise

From Dr J.H. Mulvey.

Sir, Productivity has risen in UK manufacturing but production has only increased "by a derisory 1.3 per cent" between 1973 to 1992, according to Martin Wolf ("The ills of manufacturing", May 14). But why is this "puzzling"?

The much vaunted rise in productivity, which still leaves the UK behind countries like Germany, Japan and the US, has been achieved largely by the sterile mechanism of "downsizing", a process that itself helps to create a large public expenditure with an inhibiting effect on investment. And, as Stephen Roach points out in an accompanying article ("America's recipe for industrial extinction"), this has reached its limit – "industry may lack the infrastructure to sustain growth in the years ahead".

When investment per employee in UK manufacturing is running little more than half that in Germany, France and the US, and one third of that in Japan, it is no surprise that added value per employee is correspondingly lower.

One factor not mentioned by Martin Wolf is that governments in the other countries recognise "market failure" in long-term investment in research, development and the introduction of new technologies and use a variety of mechanisms to share the risks with industry.

J.H. Mulvey,
executive secretary,
Save British Science Society,
Box 241,
Oxford OX1 3QQ, UK

From Mr Paul Cook.

Sir, While Martin Wolf's article contained some interesting observations I feel that it missed the point. When he says that "managers know only how to cut costs, not how to grow a business", should he not ask why that is? Surely this is not caused by the factors that he mentions: chronic overvaluation of the exchange rate, poor labour relations and unstable macroeconomic policies. They sound like excuses, not reasons.

Britain's competitors have not been operating in benign environments themselves but they still manage to out-perform us. How is it that Korea has built a semiconductor industry, while the UK has none? Why is Britain's motor industry owned by foreigners? A large part of the answer must relate to the quality of management.

We should accept that some things cannot be controlled and concentrate on those things that we can control; we should be looking at new products, new markets and new ways of doing things. We should be looking at training, skill levels and new investment.

We do not need to look for excuses, we need to find solutions. Only then will we start to reverse the decline in our manufacturing base, and maybe then the UK will be able to build the industries of the future, rather than asking our foreign competitors to build them for us.

Paul Cook,
38 Park Road,
Burntwood,
Staffordshire WS7 0EE, UK

Value put by consumers on gas is missing

From Mr John Heron.

Sir, In the reports and discussion in your newspaper of price controls proposed by the UK gas industry regulator, Ofgas, on Transco, the pipeline arm of British Gas, I see no mention of the value placed on natural gas by individual domestic consumers. I would pay a good deal more than the present rate, if I had to.

British Gas has transformed the climate of living in this most northern of all densely populated countries. I can live comfortably all the year round without heavy clothing or confinement to one or two rooms kept warm.

I see no choice for heating, other than "natural" gas. The electric underfloor heating we previously had here was too insensitive to weather changes and became prohibitively expensive from the mid-1970s. Oil is hardly practicable for this three-bedroom terrace house.

Aged 70 and with an earlier tendency to bronchial troubles, I would by now, without British Gas, have emigrated for at least the greater part of every year to a drier and warmer climate.

The value really put on a secure source of natural gas heating by domestic consumers seems to be missing from the equation in current proposals about gas prices.

John P. Heron,
6 The Farm,
Princes Way,
London SW19 6QF, UK

Sending the wrong signal on this issue

From Mrs Sheila Wells.

Sir, On the day that the final decision had to be made to acquire shares in Railtrack, staff at Chippenham station decided to keep it locked. The only way to get on to the platform was to climb over a five-bar gate at the far end of the station and proceed up on to the platform.

Being dressed for work in high heels and a tight short(ish) skirt made life a little difficult.

I appreciate that privatisation will segregate the tracks from the trains but this is taking it too far.

Sheila Wells,
3 Granary Close,
Malmesbury,
Wiltshire, UK

End to damaging uncertainty a real prospect with Lloyd's offer

From Sir Ewen Fergusson.

Sir, Members of Lloyd's will now have received the outline of an improved settlement offer under its reconstruction and renewal plan. It will apparently take another month more before a further detailed indication of the ultimate bill reaches members. Nevertheless, it is at last possible to see the shape of a final settlement. All concerned with the future of Lloyd's and their personal relationship with it will need to be making their minds up over the next few weeks. The question is simple – will this great City institution and major export earner be permitted by its members to survive?

The latest plan offers:

- (i) Increased help for loyal Names who have paid their losses, often at great personal cost, and who have been ready to continue trading;
- (ii) Extra cash for those genuinely unable to pay;
- (iii) Better prospects for settling outstanding litigation by providing extra money and revising favourably the classification of litigating names;
- (iv) Additional money by bringing the auditors into the settlement (this will also remove the risk of secondary actions against managing agents).

The alternative, of facing the consequences if Equitas does not get off the ground, can hardly bear contemplation.

No workable solution can satisfy everybody. There are still imperfections in the latest proposals. I should like to see a larger contribution by the auditors; the present figure looks low in view of the extent of their potential liabilities. And, given the increased 1993 profit for managing agents and the profit commission they have earned, I should like to see a larger contribution on their part.

That said, all Names – and particularly those who look forward to continued participation in the Lloyd's market – now have a real prospect of ending years of damaging uncertainty in the management of their personal affairs, with all that that has meant to families and individuals. For most, the settlement will give stability at what looks like being an affordable cost.

Ewen Fergusson,
chairman,
Coutts & Co,
440 Strand,
London WC2R 0QS, UK

Personal View • François Perigot

No strategy for employment

European pacts are unlikely to remedy the decline in the competitiveness of European business

At the start of the year, Mr Jacques Santer, *president of* the European Commission, launched his "pact for confidence and employment" to tackle unemployment. He toured EU capitals, talking to employers and trade unions to win their support, and at the end of April told a round-table conference on employment that he had found both groups in favour of anything that can help create jobs.

However, beyond unanimity on the objective, it is difficult *to find a strong consensus on* policies to be adopted if growth in unemployment is to be reversed. As UNICE, the European employers' federation, has pointed out, that will not be possible without agreement on the reasons for the decline in competitiveness of European business which is behind the job destruction.

We believe responsibility for restoring that competitiveness lies squarely with the member states which have failed to deliver on the measures they agreed at the 1994 Essen summit.

The European Commission certainly has a duty to raise awareness of the problem of unemployment, to co-ordinate policies to tackle it and mobilise resources where possible. But it runs the risk of raising false expectations if it tries to take on responsibilities it cannot discharge.

European institutions have only a limited range of policy options for improving competitiveness, such as *improving infrastructure, making* the internal market work better and judicious allocation of the *structural funds. They do not* have the authority to reform social security systems or create greater flexibility in labour markets.

The real responsibility lies with the member states. They have undertaken to implement the structural reforms which alone can enable our old European countries to adapt to fierce global competition. Fundamental reforms are needed to reduce public expenditure and modernise archaic rules and regulations designed for yesterday's world.

Responsibility for restoring competitiveness lies squarely with the member states which have failed to deliver on the measures agreed at the Essen summit

Such reforms would reduce the burdens that weigh down on business, and restore to companies their vital ability to adapt. We need to re-establish the flexibility, creativity and taste for risk that have been stifled progressively over the decades.

Member states alone can give real meaning to a model of society based on freedom and greater responsibility of individuals for their own lives. Individual citizens in work and able to do so should expect in the future to provide more for their own needs and to rely less on society for support.

Member states alone can restore faith in the value of savings, which is necessary if individuals are to accept greater responsibility.

Where do the European social partners – the employers and unions – fit into this picture? It seems to me that their role lies principally in speaking out bluntly, instilling a sense of reality among the public and governments and reminding them of their responsibilities. Without such support, governments may lack the political courage to push through the necessary reforms.

Furthermore, the social partners have built up mutual trust between them during more than a decade of constructive dialogue. This would allow them to develop joint analyses of the causes of unemployment, highlight the facts, clarify thinking, and open up new avenues for reflection on European competitiveness.

But the social partners cannot supplant the role of national governments in dealing with the vast diversity of conditions in each member state. And frankly I doubt that meaningful agreements on employment can be negotiated at the European level. Negotiations at that level have value only when they are voluntary and bilateral and the prospects for success are good.

Nor do I think a European pact that resurrects the old tri*partite approach will create an* innovative framework suited to solving the problems, other than to produce too general and, therefore, misleading solutions.

To achieve effective action, the goodwill of the players must first be harnessed in reaching agreement on the causes of growth in unemployment. Trying to devise solutions in the absence of a con*sensus that is manifestly not* there at present is likely to blur thinking rather than find a way forward.

There can be no "pact for employment" without deep agreement on the realities which concern us all and yet which we collectively refuse to face.

The author is president of the Union of Industrial and Employers' Confederations of Europe (UNICE).

FINANCIAL TIMES
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Monday May 20 1996

Downsizers under fire

Yesterday, US business leaders were hailed for making their companies leaner and meaner. Today they are villified for their brutality and short-sightedness. Nor is it just Patrick Buchanan who is leading the charge. Stephen Roach, chief economist of Morgan Stanley and a guru of "downsizing", has recanted his earlier faith. The productivity-led recovery is now a "slash-and-burn" strategy. With friends like these managements need no enemies.

As summarised in the FT on May 14, Mr Roach has declared his recantation to the world. Some might find his arguments confusing. Could they be confused? To answer the question, it is helpful to distinguish the economic efficiency of any productivity improvements from their social and political consequences.

What makes Mr Roach's position so surprising is that he focuses on efficiency. Since inadequate productivity growth has been almost universally agreed to be a blemish on the performance of the US economy over the past two decades, how can improvements be a problem?

Not that these improvements are very evident, since overall labour productivity rose by a mere 15 per cent between 1980 and the end of last year, far below the improvement achieved in other big economies. It has risen at only about 0.9 per cent a year during the present cycle. This is hardly a productivity-led recovery.

Utterly inconsistent

Still more surprisingly, Mr Roach focuses particularly on manufacturing industry. He complains, for example, of the 0.6 per cent a year contraction in factory employment since 1980. But this is a far smaller decline than in most other advanced economies, notwithstanding the rise of more than 75 per cent in output per person employed between 1980 and 1995.

This combination was possible only because, far from stagnating, US manufactured output expanded by more than a half since 1980. This performance seems utterly inconsistent with criticism of the "hollowing" tactics of US management.

Maybe cost cutting has undermined the long-term health of US manufacturing. If so, it is hardly obvious. Manufacturing performance looks splendid, not just in terms of output and productivity, but also in terms of innovation.

True, as Mr Roach says, the growth of the US capital stock in manufacturing has been rather slow since 1980. But the only solution is more capital spending, precisely what has started to happen in the 1990s.

This expansion in investment has been stimulated by the improvement in the share of corporate profits in national income, to 10.5 per cent in 1995 from 8.5 per cent in 1991. But this rise hardly seems excessive, since the share is well below the 14 per cent of 1965 – heyday of President Lyndon Johnson's Great Society.

Efficiency argument

Mr Roach's efficiency argument against downsizing seems entirely misplaced. The economy as a whole shows little productivity improvement and, given the success of job generation, little sign of downsizing either; manufacturing's expansion has been almost as striking as its ability to raise output per head; and the way to still healthier growth is via more investment, driven by higher profits.

These are not serious concerns. The sensible reasons to worry are the decline in the real earnings of the majority of workers and the increasingly unequal distribution of earnings among working people. In 1980, for example, the gross hourly earnings of US males close to the top of the earnings distribution exceeded those near the bottom by 4.8 to one, which was far more than in other industrial countries. By 1990, however, the ratio was 5.6 to one.

The failure to generate improved prosperity for a large proportion of the US population is a challenge for business and politicians. Some attempts to solve it could, however, be worse than the disease. They would certainly be so if business were to abandon efforts to raise productivity and profits, or politicians were to give up their attempt to reduce fiscal deficits and curb inflation. Productivity is not the problem – and populism is not the answer.

Who regulates the regulators?

Regulation of privatised utilities is now delivering clear benefits to customers. That is exactly why it is worth pausing to ask whether the UK regulatory framework is in danger of malfunctioning.

Privatisation has transformed the utilities to an extent impossible in the public sector. Companies are very much more efficient. Freedom from Treasury control has allowed them – notably the water industry – to invest more heavily. In most cases, customers are paying less for better services.

Yet the companies remain highly unpopular. Many people appear hostile to the notion that utilities should make any profits at all out of providing basic services. Meanwhile, companies complain that individual regulators can change their fortunes by an arbitrary judgment.

Some of these problems stem from the terms of privatisation. The scope for efficiency gains was grossly underestimated; so shareholders, particularly of water and electricity, have made big gains.However, these problems will be redressed to a great extent by successive pricing reviews. Nonetheless, it is becoming clear that the regulatory framework has serious persistent flaws. Some regulators appear to change their price-setting principles between reviews, and they are inconsistent with each other.

Messy consensus

The recent pricing review by Ofgas, the gas regulator, highlights how much calculation of the price curbs depends on two figures which are open to debate: return on capital, and the asset values to which that return is applied. In the case of the required return on capital, regulators have moved towards a messy consensus with each other, in most cases significantly toughening their original views. But the definition of asset values remains entirely arbitrary, and regulators differ widely from each other in the principles employed.

Judgments about these two figures have come to dominate the regulatory task in a manner not envisaged at privatisation. The subjective element involved increases the regulators' susceptibility to public and political pressure. Does that matter, given that they are supposed to be acting in consumers' interests? It does.

While the first pricing reviews after privatisation tended to be too lenient, there is a danger that the regulators will eventually tighten price caps too far. Contrary to expectations, and to experience in the US, the regulators have not been "captured" by their industries. But they may be in danger of being captured by public opinion, to the long-term detriment of investment in these industries.

Bone of contention

The Monopolies and Mergers Commission, which pronounces on some disputes between companies and their regulators, is an important check on the regulators' power. But the MMC itself is not immune from inconsistency. Moreover, not all types of dispute qualify for MMC review under present legislation, a present bone of contention between British Telecom and its regulator.

The Labour party has made clear that, if it forms the next government, it will seek more control over the regulators, in particular over pricing. It is also likely to take charge of the companies' investment plans. This is not the answer. One of the best solutions is to press ahead with introducing competition. This may bring problems of its own; as British Telecom has shown, the advantages of the incumbent, particularly economies of scale, may mean that new entrants find it hard to gain a foothold without special assistance.

The substitution of regulatory panels for individual regulators would help, and the panels should work to a common set of principles on questions such as asset value and return on capital.

Transparency about the process of regulation, as practised by Mr Ian Byatt, the water regulator, is also essential. There is no case for scrapping the UK's framework of regulation. On the whole, it is working well, and is getting better. But it can overshoot: it was once too generous to business, but may become too tough. After a decade of privatisation, regulation itself needs a review.

How they sold the railways

Charles Batchelor describes the tortuous process of privatising British Rail which enters its final stage with today's flotation of Railtrack

There have been many times in the past four years when the selling of British Rail – variously described as "a privatisation too far" and "a poll tax on wheels" – has appeared on the verge of breakdown.

But the flotation today of Railtrack, the company which has taken over BR's stations, signalling and track, crowns one of the most complex privatisations ever attempted. Eighteen of the 25 franchises to operate passenger services are still to be auctioned but the sell-off has attained an unstoppable momentum.

For ministers, Whitehall officials and the small army of accountants, lawyers, merchant bankers and PR consultants who have managed the sale, it heralds the beginning of the end of a struggle that at times seemed likely to engulf them.

"The past two years have been a time of constant crisis management," says one senior adviser.

Many of the crises have arisen from the intense criticism of the privatisation of the railways from the opposition parties, rail unions and pro-railway lobby groups. They have been able to produce a seemingly endless stream of leaks alleging safety threats, reduced services and the imminent collapse of the sell-off.

"Ministers and 10 Downing Street were seriously worried by the scale of the criticism," says an official. "It was extremely unpopular, even by normal standards of privatisations."

But the greatest problems facing those in charge of privatising British Rail were not those thrown up by opponents. They stemmed from the complexity of the new arrangements for operating a privately-owned railway system.

Previous privatisations had involved either the flotation of a single company or its division into a handful of more manageable units – often regional monopolies like the water companies. But ministers wanted to create a much more competitive environment for rail, hoping that new train operators could be tempted into the market.

They settled on a hiving-off of the infrastructure as a separate company – Railtrack – making the network available to train operators in return for access charges. The freight and passenger operations were divided into smaller units for sale or franchising out, with leasing companies set up to provide rolling stock for passenger services. The maintenance side was divided into competing units and put up for sale.

Rail privatisation thus involved selling off more than 50 companies to trade buyers, the flotation of Railtrack and the franchising out of 25 regional passenger services.

"I spent six weeks looking at rail after the 1992 election and decided it was the most urgent issue because of its complexity," says Mr John MacGregor, transport minister at the time. "The bill authorising the sale had to be in the first session of Parliament."

Resolving the contractual relationships between all these new rail companies was a time-consuming business. Linklaters & Paines, the City law firm which advised the government, alone billed for 30,000 hours work.

But the complexity of the arrangements also posed a second difficulty for the government: how to make the companies attractive to the private sector while protecting the interests of passengers. If the operation were to be successful, a balance between these interests needed to be reached, but there was scepticism among potential buyers that they would be able to make a profit.

Curbs on commuter fares – introduced in May 1995, 18 months after privatisation had begun – were one concern. "They will constrain our ability to use our flair and mean we will have to take a closer look at the numbers," said Mr Trevor Smallwood, chairman of FirstBus, the company which bid successfully for the Great Western passenger franchise in partnership with the management.

A further complication was that the railways as a whole were not profitable. Unlike almost every other privatisation, they relied on Treasury subsidies to underwrite heavy losses.

The privatised rail network will still depend on subsidies and these need to be fed into the system in ways that will provide incentives to reduce costs. At the same time, the subsidies must discourage operators from cutting "network benefits" such as shared ticketing systems. Devising contracts to take account of this took more than a year.

All this had to be achieved against hostility inside British Rail to its break-up and sale. Internal opposition is not unusual in privatisations but the delays in setting up the new structure gave ample opportunity for BR employees to cause mischief.

Officials involved say many BR managers committed themselves wholeheartedly to making the sell-off a success – but others took every opportunity to throw up obstacles. "It was like dealing with a split personality," says one adviser. "BR executives put in a lot of hard work but this was associated with 'rock throwing' by other senior executives."

One by one these difficulties were overcome. But even in the last stages of the Railtrack privatisation, there was the threat of an embarrassing breakdown in negotiations over the debt to be inherited from British Rail. The Treasury wanted the company to assume an even higher level of debt than the £1.5bn on its balance sheet. Railtrack wanted it all written off.

There was little sympathy for Railtrack's position from the department of transport officials, Sir Patrick Brown, the permanent secretary, and Ms Jenny Williams, one of his senior officials. They had both been involved in water privatisation and believed the water companies had been treated too generously.

"They felt they had lost out over water and were determined it would not happen again," says one Railtrack executive.

Railtrack's three senior directors headed by Mr Bob Horton, the chairman, threatened to resign if the Treasury had its way – convinced they could not create a viable company. "Threatening to resign may appear something of a ritual but the directors didn't think so," the executive says. "They were completely in earnest. There were a lot of harsh words."

A compromise was reached at the end of February only after dozens of meetings, long weekend telephone conversations and emergency negotiating sessions. The company was left with debts of £600m.

Agreement on Railtrack's capital structure cleared the way for the issue of the company's "pathfinder prospectus" in April. Railtrack and its principal advisers, S.G. Warburg, decided on the unprecedented step of paying private shareholders a dividend which had been earned while the company had been state-owned. It was essential to keep this a secret, says Mr Cary Martin, chief executive of Dewe Rogerson, the PR consultants to the issue, since its effect would have been lost if details had appeared before the prospectus was published.

"But none of the press thought to ask if we were planning a privatisation dividend," he says. "So when we announced it at the time of the prospectus it led to a sharp surge in interest from investors." In the fortnight after the announcement, a further 1m shareholders registered with a share shop.

The agreements on the access contracts and on Railtrack's capital structure marked crucial steps forward in completing the sale of the rail businesses. But it was the sale of the first two passenger franchises, for Great Western and South West Trains in December, which prompted the first shift in public sentiment. "Up to then, we had had largely negative publicity but thereafter the tone of press coverage changed," says Mr Roger Salmon, franchising director.

Achieving even these two successes required a special effort led by a project control group set up last June under Mr Nick Montagu, deputy secretary at the transport department. It brought together 20 senior officials from the government, Railtrack, British Rail and the offices of the franchising director and the rail regulator every Friday at 8.30am.

Despite their efforts, the breakthrough was marred by the discovery of an alleged ticketing fraud at a third company to be franchised out at the same time – the London, Tilbury & Southend line. The sale was suspended just before the management buy-out team took over. "By now we were so used to setbacks of this kind that we could take it in our stride," says one official. The franchise has since been sold, on even better terms.

There is still work to be done before the privatisation of BR is completed and a snap election could halt the sale of the remaining franchises. But senior transport officials are now confident that – barring surprises – the entire railway network will be in private hands by next spring.

At the final meeting of the project control group on May 10, Mr Montagu staged a spoof awards ceremony for those involved. The awards summed up the mixed emotions of the four-year battle.

The Jim'll Fixit Award for "delivering solutions you always wanted" went to Mr Brian Mellitt, Railtrack's pragmatic engineering director. The Cassandra Award "for gloomy predictions that turn out to be true" went to Mr Charles Allen-Jones, senior partner at Linklaters.

But the Kim Philby Memorial Award went to "the unknown member" of the group accused by Mr Montagu, only half jokingly, of sending the minutes of their meetings to the press. No-one present doubted there had been times when the leaks had threatened to derail the whole process.

· OBSERVER ·

Mouse bites Katzenberg

■ DreamWorker Jeffrey Katzenberg can dream on, according to Walt Disney's formal rebuttal of his $250m breach of contract suit, pressed last Friday into his lawyers' hands.

The poorest of the trio comprising DreamWorks SKG was allegedly not only paid "millions" in bonuses he did not earn in his early years as head of Disney Studios, but signed away future rights in a clause he himself insisted on including in a revised contract.

Snubbed in his bid for the Disney president's job, Katzenberg joined Steven Spielberg and David Geffen in their embryonic entertainment venture in 1994. He took his pay-off, Disney said, and left behind any claims on profits from box-office successes such as The Lion King and Beauty and the Beast.

Meanwhile, the lion of Malibu – aka David Geffen – is also a mite distracted from getting the dream to work. He has drawn fire over an attempt to give away $5m in loose change from his immense music-based fortune to the Museum of Contemporary Art's annex in downtown LA.

In recognition, and to the disdain of the city's stuffed-shirt brigade, the hitherto catchily-titled Temporary Contemporary will be emblazoned with the Geffen moniker. Naturally, in the city where vulgarity is a recognised art form, it is not the name they object to, but the price. "Too cheap," they bleat, pointing out that the Audrey and Sydney Irmas Wing, comprising offices and staff loos, was named for a $3m hand-out.

Never mind. The place is still seeking a patron-sponsor for a storage facility for its permanent collection. At a mere $250,000, Katzenberg might fancy it – to store his lawyers' bills.

Dear Don

■ Donald Johnston, who takes over at the helm of the Organisation for Economic Co-operation and Development next month, won't need to buy his own drinks at its annual ministerial meeting in Paris today.

He will be fêted by no fewer than seven candidates hoping to persuade him that they should become one of the OECD's two European deputy secretary-generals.

The UK treasury and foreign office have been bombarding member capitals with telegrams promoting the case of David Peretz, the treasury's 52-year-old deputy director of international finance. As a G7 financial sherpa and an old hand at the International Monetary Fund and World Bank, Peretz is well-qualified. The question is whether Johnston will have forgiven the Brits for arguing for so long that Nigel Lawson should have got his job.

Trial trailed

■ At last, France's answer to the OJ Simpson trial? Infonie, the Internet-style on-line computer network, is to offer its subscribers substantial chunks of the appeal hearing on corruption charges which opens today of Alain Carignon, the former mayor of Grenoble. Judging by previous such trials, it may not be as gripping as its LA equivalent. But at least users will be able to skim at speed through the waffle.

Rock solid

■ Gibraltar, that perennial headache that has British and Spanish diplomats reaching for rock-sized tranquilisers when the subject comes up, has elected a new government. So everybody is happy.

Everybody, that is, save the outgoing chief minister, the truculent trade unionist Joe Bossano, and his supporters, who loathed London and Madrid in roughly equal proportions.

By contrast, the Foreign Office feels comfortable with the new Mr Gibraltar, barrister Peter Caruana, who went to an English public school, and was called to the bar, and has the right accent.

Madrid's foreign affairs ministry also counts Caruana as one of them because he spent years working for the legal practice of the Triay family, a leading "dove" clan in Gibraltar. He speaks good Castilian Spanish, shorn of the pidgin idiom that is the norm on the Rock, and has a lot of rich Gibraltarian friends who live luxuriously across the border in Spain.

No wonder one of Bossano's friends ventured that "the class struggle" had been lost, at least for the time being because *la gente del pish* had won. The latter is Rock code for the people of the pitch – the croquet and the polo pitch, that is.

Goat not got

■ Following Observer's report about the menace of Mexico's *chupacabra* or goatsucker, it emerges that in east LA, local reporters have been in hot pursuit of an invasion of the alleged vampire variants. With no confirmed sightings of the pop-eyed creature, a local radio station set a trap outside its studio complete with net, tethered goat and animal psychologist to soothe the bait.

The ungrateful suckers refused to show, and the goat was unharmed, physically and mentally. According to the radio: "The goat felt secure but has no short-term memory so he can't remember why he was here."

The Financial Times

100 years ago

Lifeless and Apathetic Trading

New York:- On the Stock Market to-day trading was lifeless and apathetic. In the forenoon prices were fractionally lower, but they recovered languidly later. London purchased Northern Pacific bonds and Rio Grande stock. The principal dealings were in Railroads, and fractional declines were marked in Chicago, Milwaukee and St. Paul and Louisville and Nashville. Industrials were active and moved widely. Closings were steady at a fractional decline. The day's business amounted to 117,000 shares.

50 years ago

Threatened Rand Stoppage

A resolution that preparations be made for a strike of all native mineworkers in the Rand gold mines, numbering at least 200,000, unless their demands are met by the Chamber of Mines, has been unanimously adopted by a meeting of several hundred members of the African Mineworkers' Union. The union is not recognised by the Government, but is recognised by the South African Trades and Labour Council for Administrative purposes. Only a small proportion of native mineworkers, it is stated, are members of the union.

FINANCIAL TIMES
Monday May 20 1996

Ginseng leaves a nasty after-taste in Taiwan

Video games corruption scandal undermines police and politicians

By Laura Tyson in Taipei

"Who's been eating ginseng?" is the question making the rounds in Taipei law enforcement circles lately – as investigators close in on a case that has rocked the Taiwanese capital's police.

The jesting query refers not to the Chinese medicinal plant, but instead to Mr Chou Jen-shen ("Ginseng" Chou), a rags-to-riches video games tycoon.

A thickset man with a permanent hair wave, Mr Chou built an empire of illegal video gambling arcades in northern Taiwan worth an estimated $400m.

The case is one of several corruption scandals to hit Taiwan recently, undermining public confidence in the integrity of police, government officials and politicians.

The scandals have captured the public imagination in the run-up to Mr Lee Teng-hui's swearing-in today as the island's first democratically elected president following an election in which corruption was a big issue.

The scale of the scandal – with dozens of public officials indicted – has embarrassed the Nationalist government, which has pledged to stamp out corruption.

The justice ministry's investigation bureau hinted late last week that it had nearly finished deciphering Mr Chou's coded account books, having persuaded his squad of four accountants to co-operate. Mr Chou has been held in custody since early April.

The accounts contain records of bribes to scores of policemen, prosecutors and government officials over the decade Mr Chou built his business. Fifteen people have already been detained and dozens of others questioned and released, many on bail.

A former head of Taiwan's aviation police is the highest-level official implicated thus far. He is alleged to have received a stipend of $7,400 a month from Mr Chou for overlooking integrated circuit boards which Mr Chou imported from Japan to make gambling equipment.

The case is testimony to Mr Chou's entrepreneurial endeavour. In addition to manufacturing illegal gambling machines and running more than 40 arcades, he devoted much of his efforts to "public relations" work.

This entailed systematically befriending and bribing anyone in order to run his business. He regularly attended weddings, funerals and other functions, sometimes four in an evening.

Because of his heavy "social" schedule, Mr Chou shunned the customary chauffeured limousine in favour of a motorcycle as it allowed him to navigate Taipei's traffic jams more quickly.

Mr Chou may be the most colourful fallen video gambling magnate, but he is not the only one. On May 14, prosecutors swooped in the central city of Taichung, indicting 89 police officers for allegedly accepting more than T$21m ($770,000) in bribes between August 1994 and May 1995 from Li Yu-ming, who ran 45 gambling arcades in the city.

Altogether 123 people were indicted in the case, which has been under investigation for over a year and is the biggest of its kind so far.

Mr Li's video gambling establishments were variously disguised as tea houses, shops and convenience stores. Prosecutors are seeking life sentences for two police officers who allegedly extorted money from Mr Li in return for not cracking down on his operations.

The cases have galvanised Taiwan's 10,000-plus video arcade and *pachinko* (electronic games) parlour operators, who complain they are unfairly treated and find it practically impossible to become legal.

The Taipei government ordered a crackdown on operators, which has essentially shut down the industry in the capital for the last month. Of the 3,000 arcades in Taipei alone, fewer than 100 are legal, largely because existing laws do not allow them to be licensed.

Lee offers China peace, Page 4

Employers' chief attacks EU plan for jobs pact

By Caroline Southey in Brussels

The head of the European Union employers' federation has attacked efforts to achieve a pact between trade unions and employers to fight unemployment in the EU, which could seriously undermine an initiative by Mr Jacques Santer, European Commission president.

Mr Santer launched his "confidence pact" for jobs initiative in February. His plan included asking the EU's social partners – trade unions and employers – to co-operate with governments on a plan to reduce the number of EU jobless, which stands at about 18m.

His motive was to encourage confidence in the EU's ability to deal with unemployment, particularly as rising levels of profitability among European companies have failed to generate new jobs.

The strategy ran into immediate difficulties when member states signalled their reluctance to allow surplus funds from the 1998-99 budget to be spent on infrastructure projects and research and development.

Mr François Perigot, president of Unice, the European employers' federation, criticises the strategy in an article today in the Financial Times.

He rejects the idea that EU employers and trade unions should be dealing with the issue and calls into question the Commission's role in tackling unemployment.

Mr Perigot's comments are likely to add to these difficulties and to exacerbate tensions between EU employer groups and trade unions over the pact.

Tensions were evident last month in Brussels at a "round table" conference on unemployment when, according to EU officials, the two sides were "at one another's throats".

However, Mr Perigot's aggressive intervention could also be designed to affect the selection of the new Unice president next month. Although Mr Klaus Murmann, president of the BDA, the German employers' federation, was until a few months ago considered the most likely candidate to succeed Mr Perigot, the view that Mr Perigot might serve a successive term has gained ground recently even though he has not declared his candidacy.

Mr Perigot argues that the social partners cannot "supplant the role of national governments", adding that he doubts "meaningful agreement on unemployment can be negotiated at the European level".

He says "trying to devise solutions in the absence of a consensus which is manifestly not there at present is likely to blur thinking rather than find a way forward".

Personal view, Page 14

Video on possible Euro 96 crowd violence is attacked

By Jimmy Burns in London

The English Football Association has strongly opposed the release today of a controversial commercial video warning of the possibility of crowd violence at next month's Euro 96 football championship in England – and is urging the public to boycott it.

"We feel this is a cheap publicity stunt which glamorises criminal behaviour. We are sure that 99 per cent of the population will see it for what it is and not buy it," Mr Andrew Walpole, a spokesman for the FA said.

However, Mr Nick Alexander, chief executive of Pearson New Entertainment, said he had no intention of withdrawing the video, which he was also hoping to sell to UK and international broadcasters.

"We believe it is a balanced and reasonable programme which offers an alternative view of the potential problems of this competition," he said.

Euro 96 marks the final rounds of the European football championship and is the world's third biggest sports event, after the Olympic Games and football's World Cup.

The 60-minute video, *Hooligan 96*, caused an initial row when it was bought two months ago by media and leisure group Pearson – which owns the Financial Times – from an independent production company, Labyrinth, which ran out of funds halfway through making it. Labyrinth is currently in administration.

Mr Alexander said his company had undertaken a due-diligence inquiry before deciding to complete production and distribution of the video on commercial grounds. "We felt that Euro 96 presented a good opportunity to publish the video," he said.

The video intersperses historical footage of violence associated with matches involving English clubs or the English national team with discussions by academics and experts. It includes predictions of an even greater breakdown in crowd control during Euro 96.

The scenes include Scottish supporters pulling up goalposts at Wembley stadium in London after their team beat England 2-1 in 1977 and clashes between Manchester United and supporters of Turkish champions Galatasaray.

"Euro 96 means that England is once again going to be invaded by Romans, Saxons, Normans, Picts and Scots," the commentary says, before predicting that "a breakdown in crowd segregation" during Euro 96 could prove "catastrophic". The video suggests matches involving English, Scottish, Dutch, German and Turkish fans could be flashpoints.

The video ends with a dramatic plea from Gordon Banks, England's goalkeeper during the 1966 World Cup finals, asking England's fans not to be provoked: "I beg you not to cause any problems," he says.

The controversy over *Hooligan 96* is part of a continuing debate over whether the FA's distribution of tickets and policing plans for Euro 96 will succeed in isolating and neutralising small groups of extremists bent on disrupting next month's competition. It is expected to attract approximately 250,000 foreign visitors and a worldwide TV audience.

Some senior police officers have warned that the policy of segregating opposing fans inside football stadiums is being undermined by the FA's inability to control ticket sales abroad.

However, the FA continues to insist that the problem of football violence has been greatly exaggerated by sectors of the media.

THE LEX COLUMN

Oracle's dream

Oracle, the world's second-largest software group, has pinpointed the deficiencies of personal computers (PCs): they are too expensive and too complicated. Mr Larry Ellison, Oracle's boss, has also lined up an impressive array of allies for today's launch of his rival concept, the network computer (NC). Unlike the PC, the NC will download most of its software from the Internet or other networks. Because the NC will be relatively dumb, it should be easy to use and cheap – $500 if Mr Ellison is to be believed. Oracle and its allies are not merely motivated by profit; they hope NCs will usher in a new era of computing that will undermine Microsoft's monopoly in PC software.

While Mr Ellison's jibes at PCs hit a mark, that does not mean NCs are destined to inherit the earth. Their Achilles heel is that they require fast telecoms links: most consumers will not be happy hanging on the line every time they want a piece of software. While technologies like cable modems and digital satellite transmission are fast enough, few homes even in the US are hooked up. Offices may prove an easier market to crack since most already have high-speed networks.

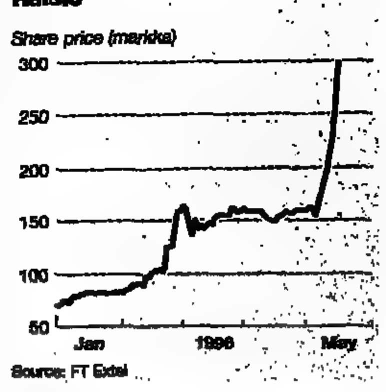
Another snag is that NCs will plug into TV sets because they do not have their own screens. Not only is it questionable whether people will want to do computing from their TV sets; NCs will be competing with other new devices, such as digital "set-top" boxes and games machines with Internet access, which also plug into TVs. Mr Ellison is right that the PC is too complex and expensive to appeal to everybody. But it remains to be seen whether new-fangled NCs, simplified conventional PCs or souped-up entertainment devices are the answer.

Functional foods

There is gold to be found even in the shrinking global market for margarine. Shares in the Finnish company Raisio have quadrupled since January, because of an intriguing new margarine which is said to lower cholesterol levels. The potential of this so-called functional food has pushed Raisio shares to a prospective price-earnings multiple of 43 – making it look more like a biotechnology stock than a food business. But since it cannot produce enough of its Benecol margarine to satisfy even the Finnish market, despite being priced six times higher than other brands, that is hardly surprising.

This must irritate Europe's food giants – Danone, Nestlé and Unilever

Raisio



Source: FT Extel

– which are struggling against low growth and shrinking margins. Their vast research and development operations are supposed to give them precisely such an edge in creating technology-driven, higher-margin products.

Of course, few mass-market products can cross the gap between pharmaceuticals and foods. And the food giants have to focus on the mass market. That means they concentrate on developing "healthy" products which taste similar to the brand leaders. A classic example is health yoghurts, such as Danone's Bio and Nestlé's LC1; these are more expensive than their peers, but do not fetch nearly the same premium pricing as Benecol – primarily because they were copying smaller competitors which had already introduced similar products. If nothing else, Raisio has underlined the advantages of being first.

Luxury goods

Luxury goods companies have become all the rage. Since flotation in 1995, Gucci and Bulgari shares have leapt by over 150 per cent, while Hermès has risen 50 per cent this year alone. Fashion flotations have refocused investors on one of Europe's few consumer product sectors which is growing fast. This is now reflected in steep price-earnings multiples – on current forecasts, Hermès is at more than twice the French average. Not surprisingly, companies like Donna Karan are hoping to cash in on the flotation bonanza.

The timing is slightly puzzling, given the poor news flow of recent months. LVMH's Louis Vuitton luggage business grew only 5 per cent in the first quarter, compared with 15 per cent annual compound growth since being acquired by LVMH in the 1980s. Meanwhile Hermès's sales growth fell from 19 per cent to 13 per cent last year. Companies have been hurt by the *franc fort*, but also by weak consumer markets in Europe, which have diluted more voracious Asian demand.

Of course, the underlying market conditions remain positive, and a stronger US dollar will help. Economic recovery in Japan is feeding demand for luxury brands, while increasing awareness of western fashion in south-east Asia and China bodes well for the future. Nonetheless, current share prices reveal great expectations, and some will not be met. Gucci is the current star as it rises from a decade of near-fatal mismanagement. But luxury goods companies are vulnerable to the loss of key designers or the tarnishing of brands through pushing sales towards the mass market. Such risks are not reflected in the bulk of the sector's ratings.

French aerospace

The battle over the future of the French aerospace industry is being played out in typically Gallic fashion: high politics, rather than industrial logic, is driving the process. In the latest twist, according to Le Figaro, the government is threatening to nationalise Dassault Aviation if it refuses to merge with lossmaking, state-owned Aérospatiale. This is a bizarre way to kick-start Aérospatiale's privatisation; but the threat carries little weight since the government needs to raise money by selling assets not spend money buying them.

That said, the threat underlines the government's desperation to create an aerospace champion that will be strong enough to carve out a significant role in the coming consolidation of Europe's industry. One can understand its concern: Dassault is out on a limb in the military jet business because France is not part of the Eurofighter project; meanwhile, Aérospatiale is, in a weak position to determine the future of Airbus, the European civilian jet consortium, because of its high cost base. British Aerospace and Germany's Daimler-Benz Aerospace (Dasa), which both have civilian and military jet businesses, are much stronger.

The government will presumably get its way with Dassault. Given that Belgium has just issued an arrest warrant for Mr Serge Dassault, the company's chairman, in relation to alleged bribery charges, his negotiating position is shaky. But merely knocking Dassault and Aérospatiale together will not give France the champion it craves; it will also have to agree to the sharp cost cuts needed to create a profitable enterprise.

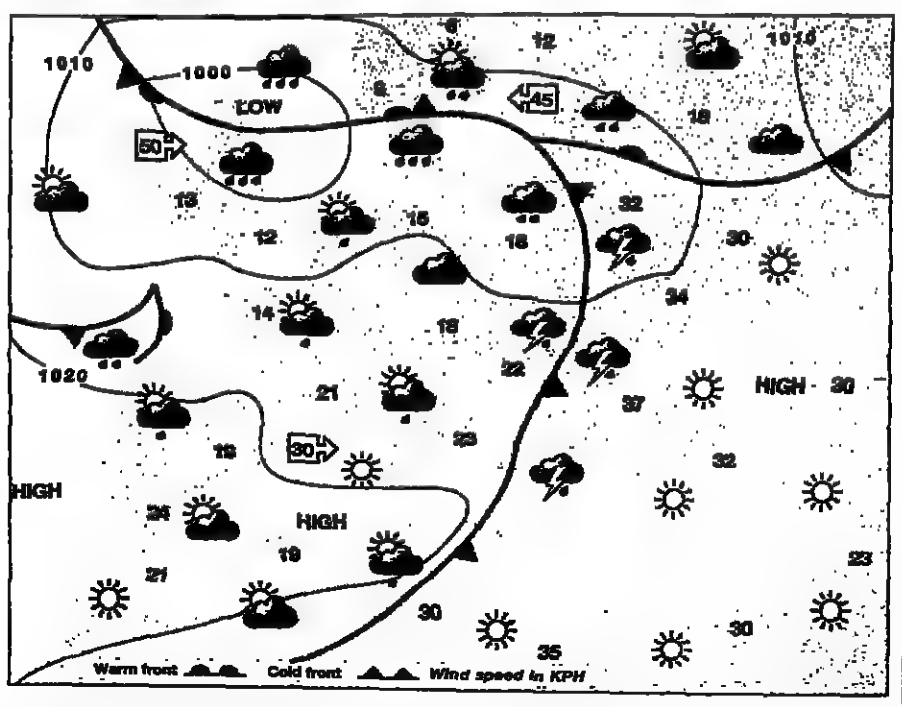
FT WEATHER GUIDE

Europe today

The British Isles are expected to be unsettled with abundant rain in Scotland, northern Ireland and northern England. Southern England will have sunny spells. Germany and the Benelux will be partly cloudy and generally dry. France will have increasing cloud with a few showers west of Paris. Showers are also expected in northern Spain. Southern and eastern Spain will be dry with sunny spells. An active cold front will sweep east across eastern Europe and southern Italy, triggering numerous showers and thunder storms. Eastern Bulgaria, Romania, Greece and Turkey will be hot and sunny.

Five-day forecast

More showers and temperatures below normal are expected in western and central Europe as low pressure systems remain active. The Mediterranean will be sunny and warm. Southern Scandinavia will be generally cloudy with occasional rain, while eastern Europe will become cooler with a few showers.



Situation at 12 GMT. Temperatures maximum for day. Forecasts by Meteo Consult of the Netherlands

TODAY'S TEMPERATURES

		Maximum Celsius														
Abu Dhabi	sun	40	Beijing	sun	29	Caracas	fair	30	Faro	fair	20	Madrid	fair	19	Rangoon	fair	35
Accra	fair	32	Belfast	rain	12	Cardiff	shower	11	Frankfurt	shower	16	Majorca	sun	21	Reykjavik	rain	9
Algiers	fair	19	Belgrade	thund	26	Casablanca	sun	21	Geneva	shower	17	Malta	fair	24	Rio	cloudy	26
Amsterdam	cloudy	13	Berlin	cloudy	18	Chicago	shower	27	Gibraltar	fair	22	Manchester	shower	10	Rome	fair	23
Athens	sun	30	Bermuda	fair	24	Cologne	shower	15	Glasgow	rain	11	Manila	shower	34	S. Frsco	fair	18
Atlanta	sun	33	Bogota	shower	19	Dakar	fair	26	Hamburg	shower	15	Melbourne	shower	16	Seoul	shower	23
B. Aires	sun	19	Bombay	fair	32	Dallas	sun	33	Helsinki	sun	12	Mexico City	fair	20	Singapore	fair	33
B.ham	shower	11	Brussels	shower	14	Delhi	hazy	40	Hong Kong	fair	28	Miami	fair	32	Stockholm	shower	10
Bangkok	thund	37	Budapest	thund	22	Dubai	sun	41	Honolulu	fair	31	Milan	shower	20	Strasbourg	cloudy	18
Barcelona	sun	19	C.hagen	rain	8	Dublin	cloudy	12	Istanbul	sun	30	Montreal	shower	20	Sydney	shower	20
			Cairo	sun	30	Dubrovnik	thund	27	Jakarta	cloudy	32	Moscow	fair	16	Tangier	fair	21
			Cape Town	fair	24	Edinburgh	shower	12	Jersey	shower	18	Munich	shower	17	Tel Aviv	sun	25
									Karachi	fair	34	Nairobi	cloudy	27	Tokyo	cloudy	20
									Kuwait	fair	40	Naples	thund	22	Toronto	shower	24
									L. Angeles	fair	22	Nassau	thund	29	Vancouver	shower	13
									Las Palmas	sun	23	New York	sun	34	Venice	cloudy	21
									Lima	cloudy	19	Nice	fair	22	Vienna	thund	20
									Lisbon	fair	19	Nicosia	sun	31	Warsaw	thund	25
									London	cloudy	13	Oslo	rain	9	Washington	sun	37
									Lux.bourg	shower	13	Paris	cloudy	14	Wellington	cloudy	14
									Lyon	shower	17	Perth	fair	23	Winnipeg	shower	21
									Madeira	fair	19	Prague	cloudy	18	Zurich	shower	17

EGYPT

The year of opportunity

Egypt has still to show evidence that reappraisal of its policies will result in substantive change, David Gardner writes

Between now and the end of the century, Egypt has the chance to relaunch its economy, to reach some sort of accommodation with a diffuse Islamist revival which the government's blanket repression shows little sign of repressing, and to reassert itself as the core nation of the Arab world.

No one knows the price of failing to meet any of these three, linked challenges, but everybody senses that it would be high.

President Hosni Mubarak, halfway through his third six-year term since taking over from the late Anwar Sadat, assassinated by Islamists from the army in 1981, designated 1996 as "the year of breakthrough" for the Egyptian economy. He appointed a new cabinet, headed by prime minister Kamal el-Ganzouri, and told him to push ahead with long-delayed structural economic reform, centred on privatisation and deregulation.

Egypt since 1991 has successfully stabilised its macroeconomy, under a programme backed by the IMF and the World Bank. In the preceding decade, it spent $50bn transforming its dilapidated infrastructure, and successfully reduced annual population growth from 3 to 2.1 per cent. But over the past two years the government appeared to lose its nerve, selling off only five of the 314 state-owned companies which together account for a third of gross domestic product, pulling back from IMF-agreed commitments to lower tariffs on imported goods, and hesitating over investor-friendly legislative and bureaucratic reform.

True, Mr Mubarak was pre-occupied with beating back a low-level but persistent insurgency from the Gama'a al-Islamiya (Islamic Group), which in 1992 launched a violent struggle to overthrow his regime; and in strangling all efforts by the mainstream but proscribed Moslem Brotherhood – the region's first neo-fundamentalist group, founded in Egypt in 1928 – to become Egypt's parliamentary opposition by cashing in politically its growing influence in society and control of Egypt's professional unions and education system.

Abroad, Egypt was fearful that the Arab-Israeli peace process would diminish Egyptian influence in the region, and that Israel's economic and technological might would exert a magnetic pull on its neighbours, which Egypt's backward, rent economy would not be able to counter.

Yet Egypt has prepared well the groundwork for further overhaul of the economy. The budget – with a deficit around 1.3 per cent, against 24.7 per cent in 1987/88 – and inflation, at 6.3 per cent, are under control. The current account is in modest surplus and Egypt has built up foreign exchange reserves of over $18bn, which the government believes will enable it to use the exchange rate as the anchor of stability for another two to three years. Mr Ganzouri says there is now the political will to go forward. Obstinately low growth, along with a growing sense both of opportunity and of missed opportunities, look to have combined to persuade Mr Mubarak to act.

Even though the IMF is now acknowledging that growth in GDP over the past two years has been nearer Egypt's measure of around 4 per cent than its own estimates, the economy needs to grow at nearly double this rate just to absorb half a million new entrants to the labour market each year. It can not do so with present levels of investment and national savings, at just over 19 and 15 per cent of GDP respectively; on conservative estimates, it needs another 10 percentage points of GDP. To get this, it must move from dependence on its main "earners", foreign aid and remittances from Egyptians working abroad, to foreign investment and foreign exchange earned from exports.

Because the government has not demonstrated its will to liberalise by privatising, neither domestic nor foreign investment has come forward in anything like the quantities Egypt needs. Indeed, ministers and diplomats attest that Mr Mubarak gave orders to step on the sell-off accelerator after learning that, by South-East Asian standards, inward investment to Egypt is barely detectable.

Mr Ganzouri says he himself has only just put the equation together. "Frankly, three years ago, I thought you could keep the public sector and still the private sector would be free to come and invest. But right now it's hard to invite the private sector to work while we have this big pyramid of public enterprises", he says, adding that "it is very hard to be in my position and to know that last year we got foreign investment of $400m while in Indonesia – I don't think they have more potential than Egypt – they got $4bn."

Dr Heba Handoussa, head of the World Bank-backed Economic Research Forum, says: "They've been looking very closely at South-East Asia" and "that's very much the message" which is getting to the government. On R & D, for instance, Egypt spent only 0.06 per cent of GDP in 1992, 30 times less than South Korea. Without the resources for Korean-style investment in basic research, the government is adopting "the Malaysian model", Dr Handoussa believes, of "letting the multinationals do it for you."

Government attempts to reform education, driven in part by the need to reclaim the school system from fundamentalist influence, are also primed by South-East Asian experience of working up from primary level. Ministers are also looking at how in Turkey and Latin America governments enticed and paid for their technocrats, so that Egypt can resolve what one calls "the lack of a critical mass of technically competent individuals."

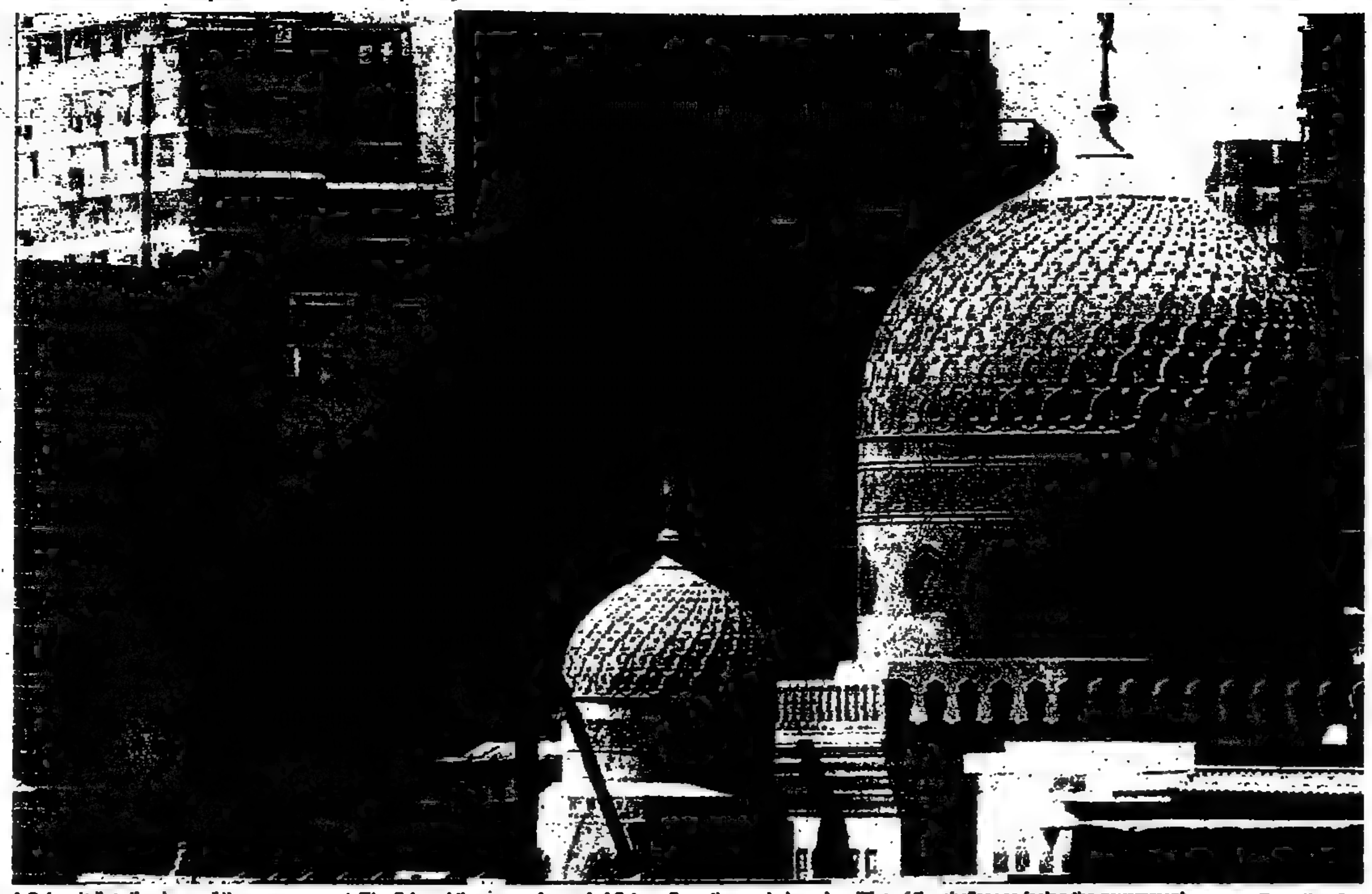
Underlying this new, outward looking approach is a strong element of *amour propre* and even nationalism. In November, for example, the third Middle East and North Africa economic summit takes place in Cairo, and Egypt is determined to do better than previous hosts Jordan and Morocco in producing a package of asset sales, new laws and projects, and agreements with the IMF, the Paris Club and the European Union, to show it merits serious investor interest. "We shall show what we have done, not what we are going to do," says Mr Amr Moussa, foreign minister.

The foreign ministry is increasingly driven by economic logic, and the need for Arab nations – split by the 1990-91 Gulf crisis and the piecemeal peace process that followed it – to act as a more effective counterbalance to Israel. Egypt has re-examined its original premise that Israel was seeking economic hegemony in the Middle East and concluded that Israel's orientation is more towards the international market place, where to some extent it requires the Arabs to legitimise its efforts through a balanced and comprehensive peace package. Egypt wants to use this as a lever, above all in the the difficult negotiations on Palestinian statehood where it is playing an important mediating role.

Egypt also wants more Arab co-ordination against fundamentalism. It assembled 14 Arab nations at March's international "anti-terror" summit in Sharm-el-Sheikh, and has tightened co-operation with its neighbours after President Mubarak's narrow escape from Islamist assassins in Addis Ababa last June. But there are widespread doubts about its methods against the Brotherhood. The crackdown has so narrowed the political field that it risks driving dissent into the mosque and underground, while the government's reliance on official displays of piety and the clerical establishment to outflank the Islamists is widening the Brotherhood's constituency.

One western ambassador argues that the government "will feel more secure as the middle class builds here" and that it has "a two-to-three-years window of opportunity" to build living and educational standards "in tandem with structural reform ...If they can't do that then, yes, they will enlarge the constituency of the Islamists."

For now, the government has stated its determination on economic reform, but even one its most ardent proponents says "we're finding out" if this has substance. "If at gut level you don't really believe that markets function, then you take measures which look like structural reform, but aren't."



A Cairo skyline: the dome of the mosque, a satellite dish and the press of crowded flats – all are the symbols and realities of the challenges facing the government

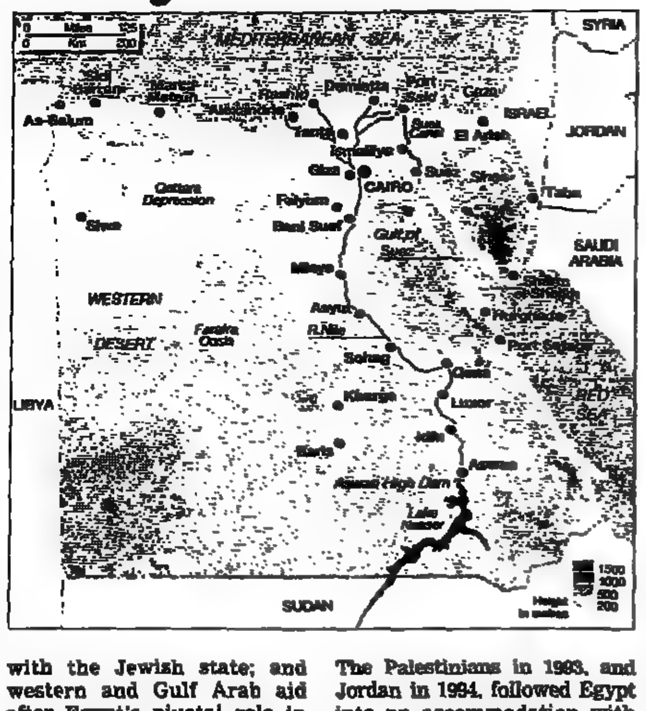
Hosni Mubarak: 'gave orders'

IN THIS SURVEY

■ **Foreign Policy:** by David Gardner

Regional influence on the way back

Egypt insists on a balanced and comprehensive peace between the Arabs and Israel



Egyptian foreign policy, long regarded, in the words of a senior western diplomat in the Middle East, as "the country's biggest export earner", is now increasingly turning its attention to creating the conditions for real exports, to enable Egypt to earn more of its living from foreign exchange, less from foreign aid.

In its imposing Nile-side headquarters, the foreign ministry, the Rolls-Royce of government departments, also appears to have regained confidence in Egypt's central role in the Middle East, after a period of self-doubt and fears that the Arab-Israeli peace process would downgrade Egypt as a regional power.

Tens of billions of dollars of aid have flowed into Egypt as a result of its external orientation. It took the form of Arab support for the main front-line state in 30 years of confrontation with Israel; US aid after Egypt's unilateral 1979 peace with the Jewish state; and western and Gulf Arab aid after Egypt's pivotal role in assembling Arab support behind the coalition which drove Iraq out of Kuwait in the 1990-91 Gulf crisis.

Aid is still flowing at around $4bn a year, but the reasons for this flood are drying up. The Palestinians in 1993, and Jordan in 1994, followed Egypt into an accommodation with Israel, leaving Syria and Syrian-dominated Lebanon still to reach land-for-peace deals with the Israelis which would establish detente throughout the region. That comprehensive peace is not yet in sight. But

Amr Moussa: co-ordinating the Middle East and North African summit

the shift in emphasis towards economic development, a more integrated regional economy and enhanced trading opportunities, and re-equipping for competition in the global market, is already well under way, while aid donors want foreign investment to start replacing foreign aid.

Although Egypt was the first Arab state to make peace with Israel, and started the overhaul of its economy in the late 1980s, others, like Jordan, have since moved faster. At last November's Middle East and North Africa (Mena) economic summit in Amman, co-sponsored by the US, Russia and the European Union, this led to an electric exchange between Mr Amr Moussa, Egypt's foreign minister, and King Hussein of Jordan, the host.

Mr Moussa, echoing a celebrated satirical poem, chided the Jordanians for being *muharweloon* – for "panting" after the Israelis and their investment. King Hussein retorted immediately, and in perfect rhyme, that the Egyptians were *al-sabaqoon* (the first), while Jordanians were mere *lahiqoun*, or "those who followed".

When tempers cooled, Egypt was quick to observe how well Jordan did out of hosting the second Mena summit (the first was in Casablanca in 1994), and secured Cairo as the venue for the third regional economy summit on November 12-14. Although Egyptian ministers would never admit it, they are determined to emulate Jordan.

"Egypt will get a lot out of it if we can show we've done a lot to interest investors," says Mr Moussa, whose ministry is co-ordinating the build-up to the summit. Jordan assembled a package of investor-friendly legislation and projects which drew in around $800m in investment and loans. Egypt wants to trump this, and, in addition, to tie up three international agreements:

- with the Paris Club on the write-off of a final tranche of official debt of about $4bn;
- which is contingent on a successful review of Egypt's extended fund facility with the International Monetary Fund, stalled by hold-ups in structural economic reform;
- and with the European Union for an association agreement, which would join Egypt to the EU's Euro-Med partnership, launched in Barcelona last November. This is aimed at creating free trade in industrial goods and services by 2010 between the Union and 12 Middle Eastern and North African countries including Israel, backed up by greatly increased aid to the region.

The foreign ministry is also in charge of the EU negotiations. It has grasped that to get full benefit from the Euro-Med offer and untrammelled access to the Union's market, the EU's partners will have to do free trade deals among themselves and remove barriers to investment. Thus, the ministry recently organised intra-regional co-ordination on cumulative rules of origin, or the ways in which businesses across the region can use each other's materials in their goods to get under EU barriers.

Mr Moussa believes the Euro-Med strategy will help the Arab partners co-ordinate among themselves, whereas the US-driven Mena summits process has "changed the climate, but not changed the substance of economic relations" within the region, and between the Arabs and Israel. That is because it much more dependent on the health of the regional peace process, which has his ministry and government extremely worried.

Over the past year, Egypt's self-confidence has returned as it has again made itself a vital conduit for regional negotiations, notably between Israel and the Palestinians. Following the spate of Islamist suicide-bombings in Israel earlier this year, it was at Sharm el-Sheikh in Egypt's (formerly Israeli-occupied) Sinai peninsula that 30 nations, including 14 Arab countries, came together to insist that terror should not be allowed to dictate the Middle East agenda.

This was a considerable coup for Egyptian diplomacy. But it was dissipated when Israel appeared to interpret the summit as a green light to launch last month's 17 days assault on Lebanon, in reprisal for attacks by Hizbollah, the Shi'ite Islamist militia fighting Israeli occupation of southern Lebanon. The US-backed Israeli air, artillery and naval bombardment shook the ground under the Arab leaders who have made peace with Israel and alliances with Washington.

Egyptian diplomacy nevertheless remains at the centre of the stage, in its insistence on a comprehensive peace including Syria and Lebanon, and above all as a facilitator in Israel's "final status" negotiations with the Palestinians. These talks began in the Egyptian resort of Taba two weeks ago, and, over two to three years, must decide on Palestinian statehood and Israel's final borders, the status of occupied Arab east Jerusalem and Israeli settlements in the West Bank, and the right of return of Palestinian refugees.

All these seemingly intractable issues can be negotiated, Mr Moussa says, if there are concessions on both sides. But he warns that "without the Palestinians moving steadily towards statehood, no one in this area will accept that peace has been established," and that the Palestinian ambition to have east Jerusalem as their capital "will have to be addressed for there to be a comprehensive peace. We cannot accept an Israeli peace."

"It has to be an Arab-Israeli peace in which Israel also pays a price, a balanced formula," Mr Moussa says. "It is not enough to talk about joint ventures – the focal point is the end of the Palestinian process."

The sphinx and the pyramids: the hope is that the Middle East peace process will prevail — Thomas Hartwell

■ **Politics:** by James Whittington

The active political arena shrinks

The level of violence has risen as authoritarianism and intolerance have increased

When a shy and unassuming former air force commander stepped into the bloodied shoes of the Egyptian presidency, following the assassination of Mr Anwar Sadat by Islamist extremists in 1981, many Egyptians sighed with relief.

They had become exhausted with the high stake politics and personality cults of their last two presidents. They were suffering from immense strains imposed by the centrally planned economy put together by the extraordinarily charismatic Mr Gamal Abdul Nasser. They were tired of the domestic upheavals and widespread arrests of the last few months of the flamboyant Mr Sadat. And, in addition, they felt humiliated and embarrassed about their peace agreement with Israel.

The apparent modesty and humility of President Hosni Mubarak appealed as an antidote to the country's woes, and for the first years of his presidency, Egypt's small but politically aware circles began to re-emerge from the wilderness. Opposition leaders and intellectuals were not only let out of jail but were consulted: political parties were re-activated; and the Egyptian press began to flourish.

This began to change in 1986 when the government was jolted by police riots over pay and conditions. A year later the Islamist-dominated opposition took 100 seats (out of 444) in parliamentary elections.

"Since then the political arena has been shrinking, first gradually but then at a faster pace," says Mr Mohammed el-Sayed Said, a leading political commentator at the Al-Ahram Centre for Political and Strategic Studies. "Last year's parliamentary elections was the culmination of this process."

The November elections were not only in broad terms described by observers as one of the most violent and fraudulent in Egyptian history – 51 people died and over 800 were injured because of shoot-outs and rivalry between candidates – but they also marked a watershed in the regime's relationship with the country's largest and most popular opposition group, the Moslem Brotherhood.

Although the ruling National Democratic Party was expected to gain a comfortable two-thirds majority in the assembly, their actual result of 98 per cent of the seats was a classic case of electoral overkill which left many ordinary Egyptians feeling disgusted. The ruling party fared far better than in the 1990 elections which were boycotted by most of the 13 opposition parties.

More ominously, the campaign was marked by thousands of arrests of almost anyone who had the slightest Islamist leanings. Throughout the year, supporters of the Moslem Brotherhood were rounded up in security sweeps and on the eve of the poll, 54 of the group's most promising parliamentary candidates were sentenced by a military court for alleged links with terrorist groups and conspiring against the state. The Brotherhood's headquarters in downtown Cairo was closed. And the movement was yet again officially certified as illegal and politically and socially off-limits.

> After the elections, the chances of a new centrist party obtaining a licence were slim

An interesting outcome of the regime's clampdown on the Brotherhood, and the movement's anguished deliberations over how to respond, was the announcement a few months after the elections of a plan to form a new centrist party called, Al Waset. Set up by a number of young Moslem Brothers and a few token Copts, its chances of gaining a licence to operate was slim at the outset.

"We need a party in which young Moslems and Christians can operate openly and legally and can have their own voice," explained Mr Abul Ella Madi, the Islamist leader of the group. A few months later he too was languishing in jail with a number of his colleagues on charges of another Islamist conspiracy.

"The regime will not allow any political party to grow and prosper. This was apparent from the weakness of the established opposition parties who are little more than clubs headed by elderly individuals," says Mr Said el-Naggar, who heads the New Civic Forum which tried and failed to put together an opposition charter before the elections. "Unless there is a change in attitude by the president I don't think the country will work peacefully and constitutionally towards change."

A women ululating at a polling centre — Thomas Hartwell

The increasing authoritarianism and intolerance shown by President Mubarak's regime has undoubtedly contributed to a rise in the levels of political violence over the past few years. Since 1992 when Islamist militants began their campaign of terror against the government, over 1,000 people have been killed, including the 17 Greek tourists gunned down last month as they stood outside their hotel in Cairo.

Many commentators believe that the current policy of repression against outwardly peaceful Islamists, such as the Moslem Brotherhood, will only serve to provide more bitter and frustrated recruits for the extremists.

Last July, Mr Mubarak himself came too close for comfort to an assassin's bullet when his motorcade was attacked by Islamist gunmen in the Ethiopian capital Addis Ababa. The incident is believed to have strengthened his resolve to try to eliminate the fundamentalist trend in Egypt, but it also highlighted another gaping space in Egypt's political structure – the contentious issue of a successor.

Mr Mubarak has studiously avoided appointing a vice-president, which is the route he took to succeeding President Sadat. Although there is a constitutional mechanism whereby the People's Assembly chooses a candidate, most probably someone from within the army, some Egyptians would like the issue to be cleared up before another scare leads to a full-blown crisis.

For the time being, however, Mr Mubarak is a healthy 68-year-old who can almost certainly be expected to stand and obtain a fourth term as president in 1999.

Despite all of the above, many Egyptians still see him as the guarantor of overall political stability, or at least the status quo. "Whatever you know is better than what you don't know," is a typical attitude in Egypt.

Mr el-Sayed Said, however, has a more sophisticated explanation of the apathy which prevails among the vast majority of people. "The country is mentally confused as to what it wants," he explains. "There are some strong themes that are common to all of us taken from Nasser, Sadat, Islam and people's own dreams. But blended together they form an awkward combination. Without an ideology or common vision the vacuum will remain and we will continue to be ruled by a security-based hegemony," he says.

■ **Economy:** by James Whittington

Bursting with plans

The transformation of a public sector-dominated economy will be a formidable task

The appointment on January 2 of Mr Kamal el-Ganzouri, Egypt's planning minister for 12 years, as prime minister with a mandate to speed up economic reforms was seen by most Egyptians as something of a contradiction. Nothing drastic was about to happen, they moaned, he's just another old guard bureaucrat.

Then, almost overnight, the local newspapers were bursting with stories about plans for privatisation, de-regulation, raising living standards, trade liberalisation, foreign investment, and export promotion. Ministers set an ambitious growth target of 8 per cent and boasted that Egypt's economy would be a roaring success by the year 2000.

This was accompanied by an aperitif of minor reforms such as a housing law for new tenants, a reduction in customs duties on some capital goods, and easier registration procedures for investors.

After 18 months of policy stagnation and a high-profile row with the International Monetary Fund over the glacial pace of economic reforms, the signals from the new government came like a breath of fresh air. Stalled talks with the IMF resumed. Mr James Wolfensohn, The World Bank's president, flew into Cairo to say how impressed he was by the government's levels of motivation. And the US merchant bank Goldman Sachs hosted a high profile conference in New York for institutional investors in which ministers and members of the private sector portrayed an Egypt on the brink of a new era of structural adjustment.

Five months later, however, and the honeymoon is over. The headlines no longer have the ring of novelty, and the pressure is on for the government to start producing results. "The high expectations in the country and among the international community are a heavy burden on me ... and it's not easy to relax," says Mr Ganzouri. "But I never say anything unless I believe in it ... Throughout my career I've learnt to know what I can (and can't) say," he adds.

While the government has a colossal amount of work to do, it is at least working from good foundations of macro-economic stability, put together under the auspices of the IMF. The Bank and donor countries since 1991.

Although official figures are notoriously unreliable and do not reflect Egypt's large and vibrant informal sector, the latest statistics show real GDP growth at 4.7 per cent in 1994/95, up from 3.9 per cent in 1993/94. Growth has been particularly strong in tourism, construction, and agriculture. The economy as a whole is forecast to grow by 5 per cent this year. Inflation has been brought down to an annual average rate of about 8 per cent. The budget deficit has been slashed to just 1.5 per cent of GDP in 1994/95. And foreign exchange reserves have been built up from a few weeks of import cover to a commodious $18bn, or 18 months cover.

Although the merchandise trade deficit increased by 7.4 per cent to $7.85bn in 1994/95, there was a surge of growth in non-petroleum exports in the first half of last year especially in cotton, textiles, potatoes and rice. On the current account balance, following increases in remittances from the 2.5m Egyptians working abroad and tourism transfers, a surplus was again registered, up from $191m in 1993/94 to $831m in 1994/95.

With the economy pointing in the right direction, Mr Ganzouri's task is to tackle Egypt's deeply entrenched structural impediments with the aim of decreasing the stark realities of prevalent poverty – an estimated 8m Egyptians live on less than $1 a day – and widespread unemployment – unofficially estimated at 21 per cent of the work force. To do this, Mr Ganzouri must oversee the transition from a centrally-planned, public sector-dominated economy towards a competitive, market-based one in which the private sector is to play a leading role.

A confidential World Bank report of last year* details a comprehensive package of reforms which includes:

● faster privatisation to reduce the economic burden of the public sector;

● an overhaul of the country's legal, regulatory, judicial, and tax structures, all of which were originally shaped to meet the needs of the public sector rather than encourage private initiatives;

● and a relaxation of protectionism through the lowering of tariffs to improve the quality of goods available to consumers and raise the level of competitiveness.

While the government pays lip service to nearly all of the above, it has yet to put forward a coherent strategy to meet these goals.

To help the cabinet focus its mind there are renewed talks with the IMF aimed at completing the first review of its Extended Fund Facility Agreement which has been delayed since September 1993.

Having agreed not to discuss the touchy subject of devaluation, the two sides have been focusing on new structural adjustment targets and further liberalisation of prices including energy. The main motivation for the Egyptians is that once a new agreement is reached, possibly by the summer, they can go to the Paris Club and ask for the third and final release of official creditors' debt, valued at about $4bn. Talks are also under way with the European Union on Egypt's entry to the Euro-Med partnership, which covers political and cultural co-operation and the setting-up of a huge free trade zone linking countries of the Mediterranean with the EU. An agreement – already signed by Tunisia, Morocco, and Israel – entails the dismantling of trade barriers over a period of 12 years in exchange for financial aid. But negotiations have become bogged down in arguments about the level of agricultural produce Egypt will be able to export to the EU.

While possible agreements with the IMF and EU this year should help to bring structure to Egypt's economic reforms, the government is looking forward to showing off its new commitment to change when it hosts the Middle East and North Africa regional annual economic summit in November. Mr Amr Moussa, the foreign minister, admits that the success of the summit depends to a large extent on the government's economic policy initiatives over the next five months. "We have to prove at the summit that we are partners in business ... we must show we have facilitated things for investors ... moved ahead with privatisation ... liberalised trade ... We will have to offer something concrete," he argues. If Mr Ganzouri and his team are to meet such high expectations they are not going to have time to even think about relaxing.

* *Economic Policies for Private Sector Development (May 1995, The World Bank).*

■ **Exports:** by Robin Allen

Untried promises

Exporters are dogged by historical inertia and obstructive bureaucracy

The recent revival, against stiff odds, of non-oil export industries is one of the more remarkable aspects of Egypt's economy in the nineties. But in the opinion of many economists, businessmen, and diplomats, if it is to be more than a temporary phenomenon, there will have to be a sea-change in bureaucratic attitudes; private sector monopolies need to be broken up; and some massive corporate restructuring set in motion.

Non-oil exports increased 77 per cent, to $2.78bn, in the fiscal year ending on June 30 1995. Altogether they made up 56 per cent of total exports amounting to $4.96bn, a figure which includes oil and refined products.

Collectively, non-oil exports in the last fiscal year formed the largest single element in the country's hard currency earnings after expatriate workers' remittances.

According to the central bank, exports of textiles and garments were up 90 per cent to $1.1bn; agricultural products, including raw cotton, amounted to $615m, a 14 per cent increase; and exports of steel and other heavy industrial goods were almost twice as much as the preceding year at $455m.

But this impressive performance, helped by Egypt's geographical position and its plentiful and skilled low-cost labour, did not last. Non-oil exports slumped in the second half of 1995. According to supply and trade minister Dr Ahmed Guelly, Egypt's trade deficit jumped by 57 per cent to pounds E£33bn ($9.7bn) last (calendar) year compared with 1994. In one single month, September, non-oil exports fell 53 per cent, although for the full nine-month period they were still three per cent up on the same period of 1994.

Some western diplomats attribute the slump to an over-valued pound. Many economists and businessmen disagree. "Stability of the pound has created confidence," said one. "The exchange rate has as much a domestic monetary role as a trade role," commented Dr Adel Beshai, head of the economic department at the American University in Cairo. "If you tamper with it, you are telling the Egyptian bureaucracy they, and the bottlenecks they create, are not contributing to our problems – as they are – and you simply encourage them to stay put."

Most observers attribute the problems of exporters to a host of factors, including an "intellectual vacuum" at the highest levels of government, even though ministers regularly make "positive" statements; to an obstructive bureaucracy; to inefficient public sector companies; and to a general lack of experience and knowledge of consumer priorities in competitive foreign markets.

The only area where there is widespread agreement is that the legacy of the last 40 years is too pervasive to be shaken off overnight. Export initiatives were stifled for almost 20 years of obtrusive socialism under President Gamal Abdul Nasser, and for a further 18 years of lingering socialism after 1973 following the introduction of President Sadat's "Open Door Policy", until the first economic reforms under the Public Enterprise Law 203 of 1991. This law removed the privileges that state companies had enjoyed up to then, and exposed their technical, industrial and financial weaknesses. Electricity and other state subsidies were partly removed, adding to the cost of overheads.

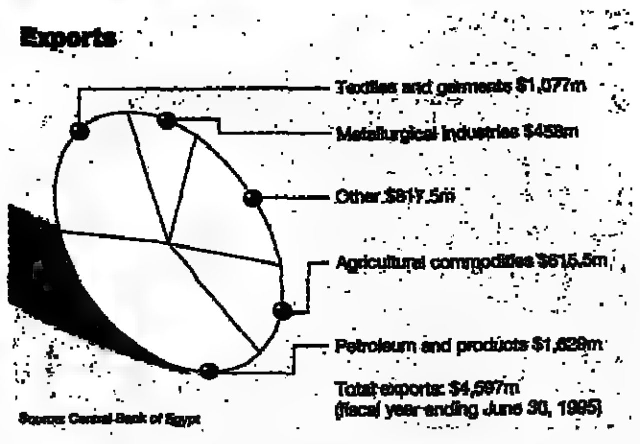
But inertia may still be a feature of government. As Dr Beshai says: "The mentality still lurks that exports are merely a residual of production." However the sheer weight of economics and demography – the 700,000 job-seekers coming each year on to the labour market – seems to have moved prime minister Mr Kamal el-Ganzouri to remove some trade barriers.

In January, the government partly relieved the tax burden on manufacturing industries by reducing import duties to ten per cent on 25 types of capital goods. While the maximum tariff still remains high at 70 per cent, the move went some way to responding to manufacturers' complaints that they pay higher duties on imports than the level of tariff protection they receive for their finished products on the domestic market.

Some businessmen oppose these lower rates. They include those who have to compete with better quality foreign goods made by joint venture companies, such as in the food-processing industries, whose management, packaging, quality-control and marketing are more efficient; and local public sector companies, where outdated management and bloated overheads leave them vulnerable to competition.

But there is a long way to go for the government's stated aim is to push total exports up to $10bn by 2000.

Exports



Main Imports (E£'000)*							
Commodity	1989	1990	1991	1992	1993	1994**	% change 1990-94
Wheat	1,307,666	2,128,538	1,614,697	2,349,947	1,130,708	2,501,169	17.5
Wheat Flour	443,906	621,050	317,186	174,642	470,378	235,381	-62.1
Maize	423,667	513,600	428,491	582,801	807,063	892,463	73.7
Chilled/frozen meat	439,612	563,593	437,034	400,161	662,650	534,744	-5.1
Dairy products	358,966	553,970	405,790	524,955	503,240	509,404	-8.0
Refined sugar	319,344	654,304	229,105	386,497	203,548	52,305	-92.0
Trucks	53,718	80,294	24,444	63,016	63,072	259,796	223.6
Automobiles	169,917	272,894	336,277	385,410	550,420	746,461	173.5
Vehicle and tractor parts	276,293	462,917	364,079	471,777	517,570	762,050	64.6
Iron rods and bars	396,409	411,703	219,553	108,744	260,074	90,781	-77.9
Excavating machinery	130,526	178,655	178,384	208,064	224,153	322,704	80.6
Chemicals	593,804	310,159	1,102,120	971,127	946,858	1,107,296	257.0
Cement	49,930	35,341	14,361	3,276	3,787	51,744	46.4
Main Exports (E£'000)*							
Crude oil	1,212,624	1,289,975	4,655,275	3,100,151	2,822,668	2,684,977	108.1
Raw cotton	594,161	562,213	193,351	175,334	146,660	791,081	40.7
Cotton yarn	990,215	1,045,820	986,520	819,806	720,546	1,279,541	22.3
Cotton fabrics	176,535	219,676	309,125	236,938	272,321	409,030	86.2
Clothing	169,801	465,199	554,016	542,834	665,328	780,342	67.7
Non-crude, shale oils	286,691	496,398	754,434	760,796	807,643	742,075	49.5
Unwrought aluminium	7,514	115	213	1,451	3,571	94,455	-
Refined sugar cane	7,254	1,415	11,746	75	4,598	295	-79.2
Oranges	154,542	148,302	141,658	108,302	58,048	27,941	-81.2
Rice	16,352	49,128	123,334	191,133	194,764	267,875	445.3
Potatoes	58,225	67,755	189,390	143,228	108,295	98,205	44.9
Aluminium rods and sections	513,256	534,209	431,972	563,011	406,204	405,438	-24.1

*Fiscal year: July 1-June 30; E£3.39=$1.00 **estimated

Source: Central Bank, Dec 1995

■ **Foreign Investment:** by David Gardner

A long way behind

It is a rewarding market to be in – once the entry qualifications have been met

At the end of last year, President Hosni Mubarak demanded to know from his ministers why it was that foreign investors in 1995 had put $40bn into Indonesia – 100 times more than the paltry $400m foreign direct investment Egypt received.

When the president demands this sort of explanation, it usually means he wants something done. And there is a lot to be done to attract the levels of foreign and private investment Egypt needs. The best reason for thinking it might be done is that nothing much in Egypt's plans for its economy adds up without it.

Egypt successfully stabilised its macroeconomy in the first half of the 1990s, but at the cost of average annual growth running well below the 5 per cent increases of the first half of the 1980s. A more than halving of public investment as a proportion of gross domestic product was not replaced by private investment, domestic or foreign.

A World Bank report 18 months ago estimated that private investment would need to double in real terms by the end of the century to sustain moderate growth of 3.5 per cent in GDP a year – less than half the at least 7 per cent level Egypt wants and needs to create the 500,000 jobs a year it requires just to accommodate new entrants to the labour market. Low investment is reflected in a big savings gap.

"You can't have 7 to 8 per cent growth with a savings ratio of 15 per cent," says one World Bank official. According to the government, gross national savings averaged 15.4 per cent of GDP in 1991-94, underpinning total investment of 19.2 per cent of GDP. "We need an extra 10 percentage points from somewhere," one minister says, adding that "foreign investors will have to provide a good chunk, maybe half" of the increase in investment, amounting to about $5bn a year, a formidable target.

Hence the emphasis on privatisation, deregulation, and limited trade liberalisation by a government relaunched under a new prime minister, Mr Kamal el-Ganzouri. "This is conviction born of necessity," says an economist from a leading international aid donor, "the government has never moved unless it has its back to the wall; Ganzouri knows it's the cost of growth."

Hence, too, the rush to complete a package of investor-friendly legislation and agreements by November, when the third Middle East and North Africa (Mena) economic summit takes place in Cairo. New anti-trust, patents, investment and labour laws are in various stages of drafting and debate, while talks with the IMF centre on structural reform and tariff reduction. Jordan, which hosted last year's Amman Mena summit, attracted substantial investment and concessionary lending by unveiling just such a package, along with structured investment projects, in time for investors to scrutinise it. As well as new laws, Mr Ganzouri wants 100 projects assembled by November, particularly in the cement, steel, fertilisers and textiles sectors. He says he already has 15, and is personally intervening to break down bureaucratic barriers to the rest.

Some of Mr Ganzouri's colleagues appear bemused as to why Egypt has done so badly in attracting investor interest, even in a region into which foreign direct investment (FDI) is at the level of sub-Saharan Africa. "The climate is all favourable," says Mr Mohieddin el-Ghareeb, the new finance minister who formerly headed Egypt's foreign investment office. There are "limitless profit opportunities" in Egypt, says Mr Youssef Boutros Ghali, minister of state for the economy.

Egypt is a difficult market to get into, and to operate in. It takes up to a year to register FDI and, according to a World Bank report on the Middle East last year, "Egyptian entrepreneurs spend about 30 per cent of their time resolving problems with regulatory compliance." International companies prepared to surmount such obstacles, however, frequently in alliance with a local partner, can reap great rewards.

"All 50-plus US manufacturers here are making very, very good profits," says a knowledgeable Western diplomat, "but all of these people are very quiet about their successes." In the absence of significant trade liberalisation and cheaper imports to raise competition, investing in Egypt is an insiders' game with big returns for those who know the rules.

Consumer goods companies like Procter and Gamble, Johnson and Johnson, Gillette, and Colgate Palmolive, office equipment producers like Xerox, and assemblers like GM and Chrysler Jeep all enjoy, moreover, what one European diplomat calls a "first-on-the-scene premium."

There might therefore be little incentive for them or other investors in Egypt to clamour for many fundamental changes, beyond obvious needs like more efficient ports and deregulated air freight. Nonetheless, Egypt has general and sectoral comparative advantages which a determined government should be able to unlock to wider investor interest.

It has a large, cheap and adaptable labour force, raw materials like cement and high quality cotton,and a market of 60m which is pointing towards more integration with its neighbours. From Egypt's point of view, the economy not only needs FDI for growth, but as a short-cut to making up extremely low investment in research and development, introducing scarce managerial skills, and creating local components networks. If tariffs came down on cars, for example, "competition intensifies, and you have to get serious about local content," Dr Heba Handoussa, head of the World Bank-backed Economic Research Forum, points out.

In textiles, food processing, tourism, steel, fertilisers, cement, and some knowledge-based industries like Arabic-language and medical software, Egypt can, and in several cases, already does do well. Garment manufacturers like Benetton and Daniel Hechter get a high quality result in Egypt and in export markets, where the country's finished textiles now exceed $500m a year.

■ **Oil and Gas:** by Robin Allen

Gas the key to energy exports

Oil is one main source of foreign exchange and proven reserves are holding steady

Egypt's future as an energy exporter may be increasingly focused on gas, but it is still crude oil that brings in the hard currency earnings.

Although domestic consumption of oil and refined products is increasing nearly ten per cent a year, improved technology and recent new finds of crude mean that proven reserves of extractable oil are holding steady at the same levels. Proven oil reserves plus condensates are now put at 3.7bn barrels compared with an average 3.2bn-3.3bn over the last ten years, according to Dr Wafik Meshref, vice-chairman for agreements at the Egyptian General Petroleum Corporation.

Annual production is 867,000 barrels a day (b/d) based on EGPC's figure of 44.6m tonnes; or some 900,000 b/d according to the petroleum ministry and oil company spokesmen.

Total hydrocarbon production last year was 56.65m tonnes – about 1.2m b/d including 300,000 b/d of oil equivalent in natural gas liquids. Some 10m tonnes of crude were exported, mostly to Israel, South Africa and the US; and the rest was taken by foreign companies under production-sharing agreements. Gross oil exports in 1995 were worth $2.43bn, more than 13 per cent up on 1994. But imports were also up, leaving a net export balance for crude and refined products of $1.5bn. Oil is now fifth in importance as a source of foreign exchange, after expatriate workers' remittances, tourism, Suez canal dues and investment income. Gulf of Suez Petroleum Company (GUPCO), a 50/50 joint-venture between EGPC and Amoco, is the largest producer, with about 360,000 b/d; followed by IEOC, another 50/50 joint-venture between EGPC and Italy's Agip, with some 230,000 b/d. Amoco Egypt produces some 40,000 b/d in its own right.

Oil and Gas 1995

	m tonnes
Crude oil	44.6
Natural gas	9.9
Condensates	1.3
Butane	0.85
Total	56.65
Refinery throughput	27.3
Total consumption	29.3
Petroleum products	19.4
Natural gas	9.9
Oil and refined products ($bn)	
Exports	2.43
Imports	0.96
Balance	1.47

Source: EGCP

Throughput at Egypt's seven domestic refineries was 27.3m tonnes. Construction of the 5m tonnes per year (tpa) Midor export refinery near Alexandria, in which EGPC has a 20 per cent stake, with the balance shared by private Egyptian and Israeli interests, is expected to start this year. EGPC is to supply 30 per cent of the crude with the balance coming through the Sumed pipeline. Two European banks, NatWest Markets and Banque Nationale de Paris, were chosen last month to arrange $600m in debt financing. The total cost is now put at $1.3bn.

If reserves of oil are limited but the crude easy to sell and cheap to transport, Egypt's natural gas has almost precisely the opposite qualities. Reserves are abundant, but the discoveries are mostly recent; money has to be spent to develop them; and the transport is expensive – unless it is by pipeline. Proven reserves of natural gas amount to 22.3 trillion cu ft (tcf), according to the petroleum ministry. Officials reckon probable reserves are twice this amount. Foreign companies are talking of 50 tcf; "and that is seriously good gas reserves," said one foreign company spokesman.

Tying gas prices to the price of Gulf of Suez blend has put Egypt back on the energy map as far as foreign oil companies are concerned. Shell, a classic oil company, is now reckoned to be Egypt's largest gas producer. If oil is fetching $16 a barrel, EGPC will pay companies $2.40 per m cu ft (mcf) for the gas. Foreign companies have seven years to find their own market if EGPC decides it does not want the gas.

This is unlikely to happen for some time. All available gas is locally consumed either to fire the country's power stations, 30-35 per cent of which still have to be converted to gas, or in the fertiliser and other industries. With domestic demand for gas already rising ten per cent a year and ambitious petrochemical and gas export plans on the drawing-board, EGPC's appetite for gas is almost insatiable.

Natural gas production is 1.3bn cu ft per day (cfd), or 0.5 trillion cu ft (tcf) a year. "Even if consumption was double, Egypt still has a very healthy amount of gas, excluding the discoveries this year," said one foreign company official.

The most dramatic of the recent discoveries are in the Amoco-operated joint-venture concession of Ras El Barr, offshore the Nile delta and in the adjacent Temsah concession operated by IEOC. Test-flows at the two have produced almost 100 mcfd of gas.

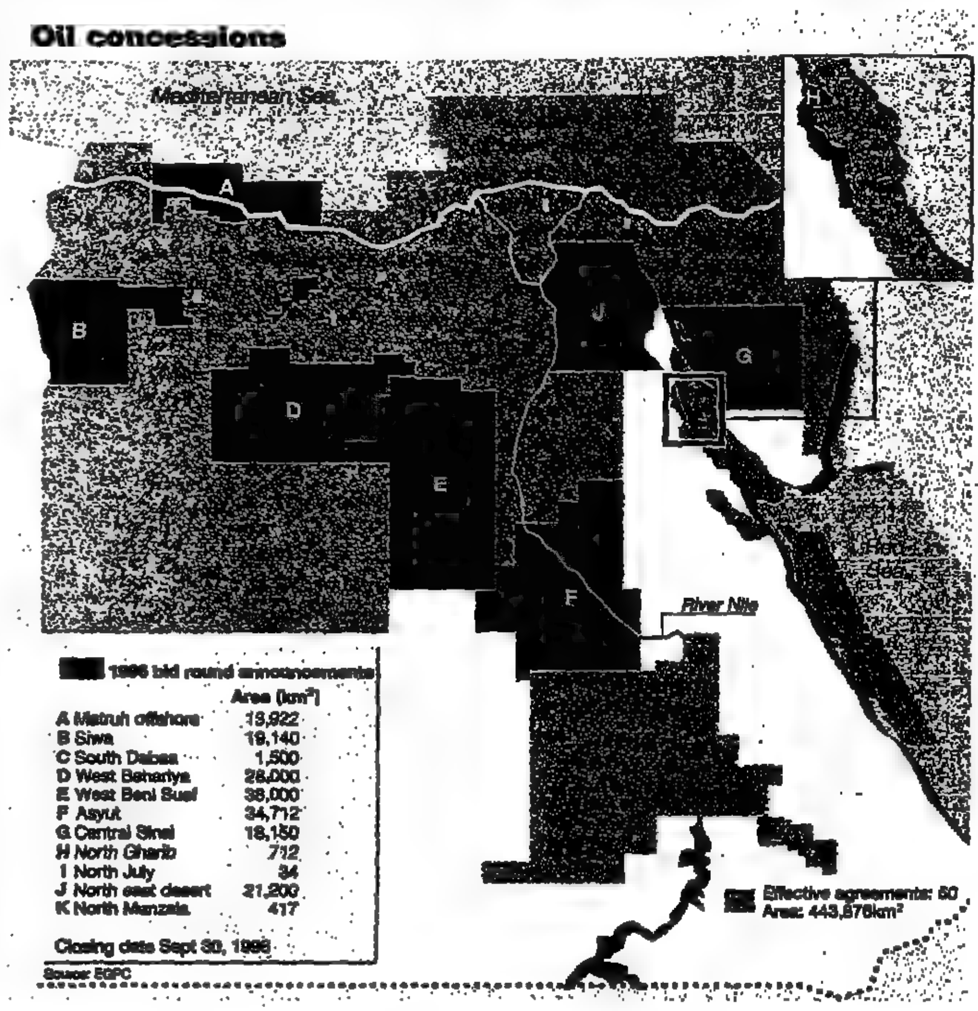
So the talk is of exports, starting with Israel, through the Egypt Trans-Gas Company, owned by EGPC's affiliate Egypt Gas, Amoco and IEOC, and the "Peace Line", through which gas would be piped from Port Said to Gaza and Israel.

Serious talks with Israel on pricing however are some way off. "Israel is not yet ready to readjust its thinking away from oil-dependence to being ready to rely on gas to meet its fuel requirements," said one western oil company spokesman. Israel is also reported to be looking for other sources of supply, Qatar, Russia and Turkmenistan among them, in addition to Egypt.

The general consensus remains however, that gas "is the future name of the game for Mediterranean states' energy requirements." Whatever the political merits of the "Peace Line" and the commercial attraction of hard-currency earnings from gas exports, increasing domestic demands will also put pressure on supplies available for export.

Not least among these are plans to build Egypt's first ethylene plant at the Alexandria complex owned by Egyptian Petrochemicals company, a subsidiary of EGPC. There are also private sector plans to build a polypropylene plant in Alexandria and an ethylene-based complex on the Gulf of Suez. These and other domestic demands, including the petroleum ministry's plan to have all government vehicles running on compressed natural gas by 2000, will ensure that demand for gas outstrips supply for some time to come.

Oil concessions



Source: EGPC

■ **Agriculture:** by Robin Allen

Resilience in the struggle against man-made problems

The productivity of the sliver of cultivable land watered by the Nile is remarkable

It is conventional wisdom among western economists and international aid agencies to bemoan Egypt's inability to feed itself. Two particularly favoured topics are the government's "stubborn" adherence to bread subsidies, which still cost the state an annual $1.2bn, and its dependence on wheat imports. This year, according to the UN's Food and Agricultural Organisation and western economists in Cairo, the government will have to pay $1.2bn to import 6m tonnes of wheat at $200 a tonne, compared with some $830m it paid two years ago to import the same amount when wheat cost only $140 a tonne.

It is undeniable that 40 years of government meddling, price and export controls and other economic distortions have magnified the problems confronting Egypt's farmers. But these issues pale by comparison with the sheer quantities of high quality cotton, rice, cereals (including wheat), fruit and vegetables which grow, often twice a year or more and much of it for export, in the tiny area of the country that is fed by the Nile, along a sliver of land 800 miles long from Upper Egypt until it broadens out into the Delta.

Far from being the perpetual problem child western diplomats love to groan about, Egypt's agriculture is a triumph of both nature and of farmers' traditional resilience in the face of man-made adversities. If there is a dark shadow over the scene, it is the prolific use of pesticides and chemical fertilisers.

The sheer weight of population growth will probably ensure that Egypt can never be self-sufficient in food, despite the impressive increases in production. According to the government's statistical office, Egypt's population on 1 January this year was 60,236,000, and growing by 2.13 per cent a year as of 1995. The figures do not include 2-3m Egyptians living abroad. Even if the rate of increase declines to 2 per cent per year, the population will rise to over 70m within 5 years, and to some 85m by 2010.

Of the total in Egypt, some 95 per cent, more than 55m people, excluding some who live in parts of Cairo and Alexandria in urban areas away from arable land, occupy the five per cent of the land that is cultivatable – an area just one-fifth the size of Britain.

This arable land is confined to the Nile valley, the Fayoum oasis on the west bank of the Nile, south of Cairo, and the Delta. The balance of Egypt's population, some 3-4m, is scattered throughout the desert in the rest of the country over some 385,000 square miles; about one million sq km and four times the size of Britain.

According to Dr Saad Nassar, adviser to the deputy prime minister & agriculture minister Dr Yussuf Waly, half of Egypt's population, and 34 per cent of its officially-registered workforce of 18m, live in the countryside and work in agriculture. The total, he says, is constantly growing, but less quickly than the population as a whole.

Farmers have to compete for space with industrial and urban development in the over-populated five per cent of the land, an area of only some 19,300 square miles, equivalent to 12.4m acres. According to Dr Nassar, the total area now under cultivation is 7.6m feddans, some 7.9m acres, of which reclaimed desert land makes up 1.4m feddans. But thanks to the Nile, which provides 85 per cent – 55bn cu m – of the water used in farming, some 6m feddans in the Delta and the Nile valley can produce two harvests a year.

In the 60s, when Egypt's population was half its size today, there was twice as much land for agriculture, and its contribution to gross domestic product, was also more than double what it is today. It now represents 22 per cent, E£31.5bn ($9.3bn), of gross domestic product, and about 14 per cent of total exports, less than 50 per cent of a generation ago.

However in aggregate terms, both production and exports are increasing. Exports in the last fiscal year (1 July 1994-30 June 1995) amounted to $615m, compared with $540m the previous year and $377.6 million in 1992/93. A decade before that they were only $138.5m. Even the production of wheat, the enfant terrible of armchair analysts, has tripled to 6m tonnes from 15 years ago, with the yield per feddan doubling in the same period.

But it is Egypt's cotton which wins the global prize for quality and cotton politics which ensure Egypt's politicians receive the wooden spoon in perpetuity.

Egypt has an export surplus of poultry, fruit, and vegetables; and rice, whose yield of 3.4 tonnes per feddan ranks it the highest in productivity in the world. Annual domestic consumption is some 2.5m tonnes, while 800,000 tonnes is exported, at an average price last year of $200 a tonne. Egypt's sugar-cane is also a world-beater, yielding 46 tonnes per feddan. Total production last year was 1.1m tonnes, of which 400,000 was for export.

Some traders and economists are hoping more effort is to be devoted to such non-traditional crops as asparagus and strawberries. "There is tremendous scope in these areas where we have a comparative advantage," says economist Dr Adel Beshai. "We could be exporting to Europe from the third week of February until the end of April, during the period when none of these crops is available from indigenous sources. Asparagus can be grown in desert soil."

Whether these arguments will convince the European Commission in the next round of agricultural talks is a moot point. However, despite considerable grumbling from officials about quotas and barriers to Egyptian products, more than half of the country's agricultural exports, some $300m worth according to Dr Saad Nasser, are already ending up in Europe.

European diplomats however say Egypt has failed to study the markets. "Egypt has had generous quota provisions on a whole range of exports for 20 years, but has failed to make use of many of them," said one. "Agricultural talks with Morocco, Tunisia and Israel were also difficult, but agreements were reached nonetheless," said another. "The negotiations with Egypt are neither exceptional nor problematic."

■ **Cotton:** by Robin Allen

Playing at cotton picking politics

Private sector manufacturers prefer yarn from India and China to the state's output

For 170 years, Egypt's long-staple and extra long-staple cotton – so-called because of the quality of the fibre inside the flower – has been much sought after on world markets.

Textile manufacturers want it for its strength, elasticity and degree of smoothness. This has enabled them to weave the thread nearly twice as tight as could be done with inferior varieties.

The only serious rivals on the world market to Egypt's Giza 75 variety remain the American and Peruvian Pima and the Sudanese Barakat.

Historically, cotton was Egypt's only cash crop. In the sixties, some 2.2m feddans were under production compared with fewer than 700,000 today.

Then politics – and science – intervened.

First, new technology made it possible to blend lower quality medium- and short-staple cotton with artificial fibres to produce cheaper high-quality textiles rivalling Egypt's cotton. As levels of overall demand for extra long-staple cotton fell, it was imperative that Egypt maintain its profile on world markets.

Second, the policies of successive Egyptian governments made it almost inevitable that Egypt would lose its place. Starting in the Nasser era, prices were fixed low to suit Egypt's state-owned spinning and weaving mills, which now employ some 600,000 people.

Exports were banned until domestic needs had been taken care of. As a result, production declined as farmers switched to other crops.

Third, to cap the problem at home, the ill-equipped state-owned spinning mills are incapable of producing quality fabrics. Using Egypt's high-grade cotton is "like taking gold to make a comb when plastic will do," was the comment of one trader. According to local businessmen, Egypt's nationalised spinning mills would do just as well using cheaper imported low-grade Turkish or Syrian cotton.

Even importing low-grade cotton might not enable the state mills to survive. Without a monopoly on the purchase of Egyptian cotton at artificially low prices, they can be undercut, even in their own market, by more efficient Asian spinning and weaving industries where labour is just as cheap.

Most of Egypt's private sector manufacturers avoid buying from the state mills, preferring to import cotton yarn from India and China.

For the last five years, the government has been committed to freeing the economy from the jungle of state controls left over from the Nasser era.

But at the same time, it has tried to give everyone concerned "time to adjust", as Mr Hassan Khedr, chairman of the state-owned Principal Bank for Development and Agricultural Credit defined it.

That meant making radical changes without upsetting anyone. This was an impossible task, reflected in the responses from growers and processors alike to the government's erratic policies.

Only at the end of 1994, did it start to liberalise both pricing and marketing. But when it lifted minimum price controls, prices soared and both state mills and manufacturers complained.

Last October, the government intervened by freezing all cotton exports until domestic demand had been met, and it set a maximum, rather than a minimum, price for sales of domestic cotton. It was then the turn of the cotton farmers to be outraged.

Last February, six months after the harvest and too late for most international buyers, it lifted the ban on Egyptian cotton exports.

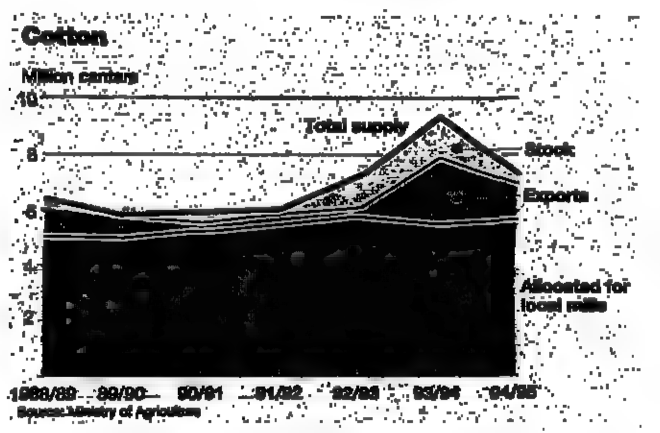
But the end of the export ban meant the domestic state-owned mills could be left short of supplies after the next harvest in August.

So at the end of March, the cabinet, in order to pre-empt industrial unrest from the 600,000 employees of the state-owned mills, and in order to keep supplies available, lifted the ban on the import of lower-grade cotton.

Despite the government's gyrations, the overall intention to free the cotton industry of all state controls, as well as the partial recovery of prices, could encourage farmers to plant more cotton.

That at least is the stated intention of agriculture minister Dr Youssuf Waly, who recently announced plans to increase land available for cotton growing by 30 per cent to 1m feddans.

Cotton



Source: Ministry of Agriculture

Egyptian cotton: commodity balance ('000 cantars*)

	1988/89	1989/90	1990/91	1991/92	1992/93	1993/94	1994/95**
Opening stock	231	129	35	306	200	1,142	1,420
Output	6,136	5,699	5,840	5,756	7,075	8,226	6,000
Total supply	6,367	5,828	5,875	6,062	7,275	9,368	7,420
Allocations for local mills***	5,074	4,995	5,208	5,530	5,772	5,523	5,713
Export commitments	1,164	798	361	332	361	2,425	1,273
Total distribution	6,238	5,793	5,569	5,862	6,133	7,948	6,986
End-season stock	129	35	306	200	1,142	1,420	434
Cotton imports	613	1,137	1,000	1,288	769	380	587
Domestic consumption	5,687	5,132	6,208	6,818	6,541	5,903	6,300

*1 kantar=50kg or 110lb **preliminary figures ***excluding imported varieties used by mills. Source: Central Bank of Egypt, Economic Review 1994/95 (published in Egypt Focus Nov 1995)

KEY FACTS

Area	997,739 sq km
Population	58.89 million[1]
Head of state	Hosni Mubarak
Average exchange rate	1995 $1=3.4047
	1996[2] $1=3.4011
Currency	Egyptian Pound

ECONOMY	1995	1996[3]
Total GDP ($m, nominal terms)	57,479	62,731
Real GDP growth (%)[4]	2.2	3.3
GDP per head ($)	976	1,037
Annual average growth in:		
Consumer prices (%)[4]	9.0	7.5
Industrial output (%)	4.3	3.9
Agricultural output (%)	2.5	3.5
Services output (%)	0.8	2.9
Unemployment rate (%)[4]	9.6	N/A
Money growth (M2, %)[5]	9.8	9.7
Budget deficit (E£m)[4]	4,605	5,487
PSBR (%GDP)	-2.0	-1.6
External debt per head ($)	728	664
External debt (% GDP)	74.6	66.0
Reserves incl. gold ($m)[4]	16,719	N/A
Petroleum reserves (barrels m)[4]	6,300	6,200
Tourism & other receipts ($m)[6]	2,100	2,250
Current account balance ($m)	60	135
Merchandise Exports($m)[4]	4,437	4,736
Merchandise Imports ($m)[4]	-10,797	-11,337
Merchandise Trade bal ($m)[4]	-6,360	-6,596
Main trading partners (1994)[7]	Exports	Imports
Italy	19.6	9.7
US	8.7	20.4
Greece	8.8	0.6
UK	6.3	4.1
Spain	4.8	1.7
Germany	4.7	9.2

(1)Estimate. (2)Year to date. (3)Estimate/forecast unless otherwise stated. (4)Fiscal year, June 1st to July 30th.
(5)End period. (6)Includes other foreign exchange receipts.
(7)Share of world trade.
Source:Datastream, Economist Intelligence Unit, US embassy, Cairo.

■ **Privatisation:** by James Whittington

The magic word on every lip

Problems lie ahead with the technical implementation of the programme and job losses

Privatisation is the centrepiece of Egypt's programme of transition from central planning to a market-based economy.

At times, since the beginning of this year, the magic word seemed to be on everyone's lips. It rapidly entered the vocabulary of ministerial rhetoric, with government officials *outlining timetables* for state sales; detailing how much money should be raised; and assuring public sector workers that no jobs will be lost.

Reams of local news copy and a sequence of conferences have debated the pros and cons of selling off state assets. And scores of international consultants have been preparing strategies the government might adopt. The only problem is that nothing much has happened yet.

According to Mr Ahmed Galal, the co-author of a World Bank book entitled *Bureaucrats in Business** and now the head of The Egyptian Centre for Economic Studies, a successful privatisation programme must meet three basic conditions: "Reform must be desirable to the leadership and its constituents. It must be politically feasible. And the promise to reform must be credible; *that is investors must* be convinced that the government is committed," he says.

On the first condition, Mr Kamal el-Ganzouri, the new prime minister, admits to coming round only recently to believing in the benefits of privatisation. "Frankly, three years ago, I thought you could keep the public sector and *still* the private sector would be free to come and invest. But right now its hard to invite the private sector to work while we have this big pyramid of public enterprises," he says.

On the second, the ruling National Democratic Party dominates all the country's civil institutions and, following negotiations with the *typically* benign trade unions, the government claims to have full support for its plans.

As for the third condition, however, the government's record speaks for itself. Over the past five years, only five fully-owned public enterprises, out of more than 300, have been passed on to private controlling ownership. Seventeen others have been partially privatised – through minority stakes – on the Cairo Stock Exchange.

This appears to be changing since Mr Ganzouri took office. Despite scepticism that the government will meet its target of 80 company sales this year, a landmark offer in *May* in which a majority stake in Nasr City Housing and Con*struction was sold through* the stock market suggests that change is on the way.

The size of the task ahead, however, is colossal. The non-financial public enterprises targeted for sale account for two *thirds of industrial output with* a book value of E£85bn. These do not, however, include the four public sector banks and the so-called Economic Authorities which control the main utilities and infrastructure units such as gas, electricity, water, oil and the Suez Canal.

> The public sector accounts for over one third of GDP

Taken together, the public sector accounts for over one third of Egypt's GDP, whereas *the average in most developing* countries is around 10 per cent.

One of the many problems identified with faster progress is a battery of technical constraints. The main difficulty lies with the bundling of public enterprises *earmarked for sale* among 17 *holding* companies. Established at the start of the reform programme, the holding companies were given the mandate to maximise returns on their capital rather than a clear rules on how to prepare companies for privatisation.

As a result, this extra layer of bureaucracy has created a self-perpetuating resistance to the sale of the state assets combined with fear among the holding companies' managers as to their future personal liability for public sales.

Outside advisers to the Public Enterprise Office, headed by Mr Atef Obeid, have recommended that a Divestiture Trust is set up exclusively to oversee privatisations. Each company ready for sale would be *transferred to the trust* which would have a legal mandate, in the form of a privatisation law, and an incentive structure to execute the sales.

Instead, the government has said it will replace the majority *of holding company managers* who are resisting privatisation. To avoid the issue of personal liability, it has established a privatisation committee at ministerial level to push the programme ahead and has *agreed for decisions on* each sale to be taken collectively by the cabinet.

Mr Obeid says the government intends to sell 100 or so companies which are making operational profits first. Many *of these were named in a list* published by the PEO in February. As each sale goes through, the proceeds will be used to help restructure the other 200 companies which are marginally profitable or loss-making. Remaining proceeds will help pay off domestic debt.

Until now, the stock market has provided a convenient vehicle to test the waters of privatisation. By floating minority-tranches – typically 10 per cent of a company's equity at the low price of between 6 and 8 times earn*ings* – and *offering shares to* employees, the government can claim to be increasing private ownership of public enterprises. At the same time it would be avoiding such crucial issues as proper company valuation and changes in company management which have held up or scuppered most majority and direct sales.

There is, too, the subject of job security. For the past four decades, the public sector has *guaranteed lifetime jobs to* about one fifth of the total workforce which has resulted in vast overstaffing of the public enterprises. Mr Obeid admits that redundancies will be unavoidable but not on the *large scale feared by the trade* unions. "What is dead wood has to be burned but we'll take care of all laid-off workers either in the form of a lump sum payment or a pension," he said.

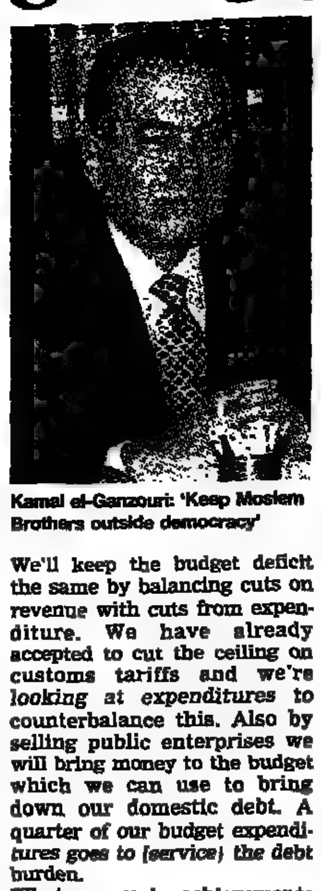
The government's success at balancing all these issues will determine the crucial criterion of credibility.

* *Bureaucrats in Business; the Economics and Politics of Government Ownership. Published for the World Bank by Oxford University Press. 1995.*

■ **Interview:** Kamal el-Ganzouri

All for going private

Egypt's prime minister answers questions from David Gardner and James Whittington



Kamal el-Ganzouri: 'Keep Moslem Brothers outside democracy'

The hallmark of your premiership is a new commitment to structural reform. Why should the outside world believe things are going to happen now?

Let's look at the last 15 years. From 1981-91 we established the main infrastructure – electricity, telecommunications, housing, transportation, and so on – without which it's impossible to talk about growth and inviting the private sector to work. We spent almost $50bn *on this.*

From 1991-95 we got financial discipline. We cut the budget deficit, cut the inflation rate, and freed the exchange rate. Right now we're on the third phase which is about raising *growth to five, six and seven* per cent in real terms, creating 450,000 new jobs each year, and raising the standard of living and improving social services in education, health and so on ...To do all this we need to *open our door for private sec*tor and create confidence and a better climate.

Central to your reforms will be privatisation. Are you more committed to this than before?

Frankly 3 years ago I thought, why not keep the public sector ... and the private sector can come and invest in any activity. Right now I find it very hard to invite the private sector to work while we have this big pyramid of public enterprises. I've told parliament and the labour force that we as government are going *for privatisation to the end* and we are serious about this. I hope that at least eight companies will sell a majority stake from now until the end of June. I can't tell you which but I want you to know we are very, very serious.

How will policies such as privatisation and trade liberalisation effect your tight targets on the budget?

We'll keep the budget deficit the same by balancing cuts on revenue with cuts from expenditure. We have already accepted to cut the ceiling on customs tariffs and we're *looking at expenditures* to counterbalance this. Also by selling public enterprises we will bring money to the budget which we can use to bring down our domestic debt. A quarter of our budget expendi*tures goes to [service] the* debt burden.

What economic achievements do you hope to present at the Middle East and North Africa economic conference in Cairo in November?

It's too late to wait to November to say we'll do so and so. We have to show something. This is why I'm accelerating the process of privatisation and each day I follow up personally any problem which is [hindering] projects. I call specific governors three or four times to follow up specific problems. I hope that by the time we reach November we can show we already have projects in steel, fertilisers, cement, textiles and so on.

What about a new agreement with the International Monetary Fund?

I am optimistic about our talks with the IMF ... its moving better than it was three months ago.

And a partnership agreement with the European Union?

For the Europeans to have a good market they need good economy in the countries [they are negotiating with]. I tell my colleagues it's not a matter of getting some grant or soft loan ... its not a trade bargain, its a package for both sides ...To help developing countries you have to find some projects which won't hurt our progress but will expand the market. If I was on the other side, it would be short-sighted to just think of opening up the market as in two or three years these countries might not be able to buy what you export to them.

Why should a foreign investor come to Egypt?

I'm trying to tell all my colleagues to have a new mentality with investors. There are some who [still] believe that investors are coming to steal from us or their patience is limitless ...It is very hard to be in my position and to know that last year we got foreign investment of $400m while in Indonesia – I don't think they have more potential than Egypt – they got $40bn. We have to speed up [our reforms] to be eligible to ask foreign investors to come in.

Why does your government insist on shutting out the Moslem Brotherhood and branding them as terrorists? What is wrong with including them in the political system?

Its not a matter of democracy ... whenever you leave them they talk about democracy but when they reach [the top] it will be the end – one hundred per cent dictatorship ...If you look at their history it shows that in 1948, 1954 and 1964 they had military groups ...They have tried to isolate themselves since and say they are against them but we know that there are links ...Believe me, their roots are very fragmented politically. We left them to offer some small services in *schools and hospitals* but everyone now knows why they did that. For democracy, keep those people outside the whole issue.

PROFILE **Chloride Egypt**

Protection at home

For foreign investors, one of the attractions of Egypt over the past decade has been the high levels of protection it *offers the domestic market.*

Once they have been through the cumbersome process of setting up a factory with workers and a product, they can rely on earning good margins behind the high walls of customs duties.

Chloride Egypt, the country's largest battery *manufacturer, has made* a great success of this approach. Set up in 1982 as a joint venture between the UK's Chloride Group (52 per cent) and the public sector GenBatt (38 per cent) – with the remainder held by the American University in Cairo's Endowment Fund – it has enjoyed years of little competition and much profitability.

This went astray for a short while in the early 1980s when the lifting of import restrictions on batteries *caused a flood of cheap* products from Asian countries. The company started to lose money, but so did Egypt. A balance of payments crisis brought the government back to its senses, from Chloride's point of view, and an import ban was re-imposed.

Ten years later, the import ban has been replaced by a customs duty of 60 per cent. But this is due to be reduced over the next *few* years as the government, under pressure from the IMF and EU trade negotiators, is forced to push ahead with further trade liberalisation.

Although the government has yet to set out any targets or a timetable for tariff cuts, Mr Gavin Ashworth, the general manager at Chloride Egypt for the past three years and the only expatriate from the Chloride Group, says the company is preparing itself to cope better this time for a *new era of freer trade.*

"Looking at the way the business is going the domestic market is to become far more competitive ... Once the duties (on batteries) drops below 40 per cent then we'll see our *margins affected," he says.* "To offset this we are focusing on expanding our export operations and seeking new markets abroad."

Chloride has a current market share of about 52 per cent, in terms of the number of car and industrial batteries sold in Egypt. Its main local *competitors are two public* sector companies: Egyptian Plastics and Electrical Industries, and National Plastics which manufacture under licence from Germany's Varta and the US's Prestolite respectively. A number of new private sector manufacturers have recently *come to the market, and* despite the tariff wall, imports are also available.

Annual sales consist of 600,000 mainly car batteries per year, of which 23 per cent are exported. The company's traditional overseas markets are Romania – this dates from the days of Egypt's barter *agreements with the former* communist bloc – and neighbouring Libya. Mr Ashworth explains that the new markets which are opening up to Chloride's Egyptian operation include Cyprus, Morocco, *Italy* and the UK. A small volume is sold to other Arab and African countries.

His target for this year is to bring export volumes up to 30 per cent of sales and he is investing to increase the capacity of the factory, situated about 25km outside Cairo at the Abu Rawash Industrial Area, to 700,000 units.

Problems with bad debt *overshadowed last year's* performance – after one of the company's main customers fled the country owing more than E£15m. This depressed *after-tax profits, as a result of* provisioning, to E£2m on *sales of E£61m.*

The industry's average operating profit margin for locally-made batteries ranges between 30 and 45 per cent and Mr Ashworth expects to report a much better bottom line this year with a sales figure of about E£80m.

To increase the company's productivity, capacity increases are being made without raising the number of workers from its current level *of 450.*

"Better productivity and efficiency is going to be essential once the trade barriers come down," says Mr Ashworth. Furthermore, all expansion is funded from the company's own revenues and Chloride Group has not had to invest a penny since its initial investment of £3.2m.

James Whittington

The company is a joint venture on the privatisation list Thomas Hartwell

Economical with the truth

Mark Twain often takes credit for the remark, but it was in fact Benjamin Disraeli's comment about there being only lies, damned lies, and statistics. It rings painfully true for all policy-makers, businessmen and journalists working in developing *countries. In Egypt, the* situation is compounded by the fact that each ministry puts out its own unique set of figures. The planning ministry's numbers are historically much higher than *those of the government's* statistics centre, CAPMAS, which in turn differ from the figures used in the foreign ministry's newly created economic brief on the Internet*.

While this in itself is confusing, what is astonishing to see is the IMF and the Egyptian government arguing endlessly down to the last decimal place over exactly how much the economy grew. Before the start of the current round of talks with the IMF, a *technical team from* Washington spent nearly two weeks in Cairo trying to iron out the government's numbers so that the two sides could at least agree on a common starting point.

As a result, the country's Gross Domestic Product figure was given a one-off upward adjustment of 25 per cent from the IMF's previously reported number which, for this current fiscal year, puts it at E£220bn ($64.7bn) at market prices. This does wonders to the country's GDP per caput, for years stuck between $700 and $800, according to most sources, and now over $1,000.

Yet even this is *probably* a long way off the reality. Aside from the lies and damned lies, *what tends to be ignored in* Egypt is the huge and vibrant informal economy.

Some estimate the size of the informal sector as being almost equal to the formal one. It certainly helps to keep the 20 per cent or so of the workforce who are unemployed (rather than the government's 9 per cent) from taking to the streets demanding another revolution.

**http:\\its-idsc.gov.eg\cairo.96*

James Whittington

■ **Banking:** by James Whittington

A quiet sectoral revolution

The Central Bank would like to see consolidation and a decrease in the number of banks

Over the past five years Egypt's banking sector has been undergoing a quiet revolution. It has moved from the socialist shackles of credit allocation, negative real interest rates, and a fixed and over-valued Egyptian pound, into a more liberalised environment in which deposits, lending and profits have flourished.

Before 1991, Egypt had one of the highest ratios of capital flight to GDP in the world. The implementation of a tight monetary policy with magnetic yields on government treasury bills, a freeing of the foreign exchange market, and deregulation in the financial sector have helped reverse this trend.

As a result, the balance sheets of many of Egypt's commercial banks – which include the four big public sector banks – have multiplied.

According to the Central Bank's latest statistics, aggregate assets of the commercial banks have more than doubled over the past five years from E£86.4bn in 1990 to E£183.5bn at the end of 1994. Total deposits have increased from E£59.63bn to E£132bn, with local currency deposits far outstripping foreign currencies from a ratio of 1 to 1 in 1990 to more than 2.6 to 1 in 1994. At the same time, credit has been growing strongly. Total lending by the commercial banks has increased from E£33.9bn in 1990 to E£59bn at the end of 1994, with a larger share than before going to the private rather than the public sector.

The four public sector banks – the National Bank of Egypt, Bank Misr, Bank of Alexandria, and Banque du Caire – continue to dominate the sector through their sheer size and coverage. They control more than 70 per cent of the sector's total assets and generally continue to be considered as part of the Central Bank's fiefdom – especially when it comes to setting interest rates.

Despite this, it has been the top private sector banks which have led the way in adjusting to the new environment. They are attracting the cream of the local businesses and multinational corporations operating in Egypt by constantly improving their services and ratcheting up the competition. This has come through in the bottom line of the three most profitable and active banks: Commercial International Bank (CIB), Misr International Bank (MIBank), and the Egyptian American Bank (EAB).

As interest rates have come down from the peak levels of 18 per cent on three-month treasury bills in 1992 to about 10 per cent now, many commercial banks have begun to expand their products and services from their traditional short-term lending activities.

There has been a sharp rate of growth in credit cards, cash dispensing machines, and most banks have ventured into more fee income operations and corporate work. Encouraged by the development of Cairo's stock market and the government's moves on privatisation many banks have or are planning to set up their own mutual funds and merchant banking operations.

The changes have not come without their problems. Increased competitiveness and narrowing margins on both lending and fees are expected to be too much for some of the smaller banks. The Central Bank has said it would like to see more consolidation in the sector and a decrease in the number of banks – there are currently over 80 banking institutions operating. Analysts expect to see more in the way of mergers and acquisitions over the next few years.

The rapid growth of the sector has also resulted in a general problem of under-capitalisation among many private sector banks. To strengthen their balance sheets and lower their cost of funds, a number have chosen to raise money through corporate bonds and primary issues on the stock market. Citibank issued the first fully-negotiable five-year floating note in local currency to expand the lending abilities of its branch in Cairo earlier this year. It was soon followed by a similar bond by EAB which also raised its capital by 20 per cent through an initial public offering.

> Capital adequacy has been a problem for the public sector banks

Capital adequacy has also been a problem for the public sector banks which have recently become more alert to their level of bad debts from failing public enterprises. Estimates of the size of non-performing assets held by the bank vary, but one economist puts it at between E£20bn and E£35bn. All four banks are taking a more conservative provision policy than before.

Meanwhile, a number of foreign banks are waiting to take advantage of new legislation which will allow them to increase their stakes in joint venture banks from their current ceiling of 49 per cent of equity. The two banks which are most interested by this are Barclays, which has a joint venture with Banque de Caire, and Société Générale, whose partner is the National Bank of Egypt.

Aside from adding to the competition, analysts hope that one of the effects of increased participation by foreign banks will be to raise the level of training and quality of human resources in the sector. Currently, there is only a small pool of technically trained and high-flying bankers who are able to cope with the continuing process of diversification. This is proving a great impediment to the development of investment banking.

New skills will also be required for other growth areas. With 80 per cent of Egypt's bank lending being short term, there is a great need to develop more forms of long-term financing. Protective legislation on housing has so far prevented any development of a residential mortgage market and there is very little usage of leasing arrangements – one of Egypt's first leasing companies is presently being set up by Japan's Orix Corporation, the International Finance Corporation, and CIB. Another area which needs developing is the availability of credit to small and micro-enterprises which provide employment to about two-thirds of the country's workforce according to some estimates.

The government's Social Fund for Development, with financial support from the World Bank and other donors, has made impressive inroads in offering medium-term loans to small businesses who would normally be ignored by the banking sector. One of the many challenges facing Egypt's banks is to find ways of expanding their clientele to the country's generally poor but large, dynamic and profitable informal sector.

Commercial International Bank – main comparative figures 1985-96* (E£m)**

	1985	1986	1987	1988	1989	1990	1991	1992	1993	1994	1995	1996*
Loans	438.8	424.2	459.2	518.7	743	1,208	1,404.5	2,102.5	2,619.6	3,305	5,249.5	5,563.5
Total assets	[illegible]	1,102	1,362.6	1,624	2,288	3,310.5	4,405.3	5,145.2	5,780	6,131	7,775.1	6,714
Total deposits	858	774	[illegible]	1,164	1,543	2,257	2,943	3,342	3,719	4,122	5,623.6	5,734
Shareholders' equity	92.4	94.8	114.3	226	283	312	374.7	441.5	831.5	831.7	858.4	831.7
Net profits	12.6	16	26.5	32.8	44.2	59.9	75.2	96.3	130.5	205	217.7	57.1***

NB figures have been rounded after the decimal point. *first quarter **E£3.39=$1.00 ***comparative figures for first quarter 1995 were E£51.4m. Source: CIB annual reports

PROFILE Commercial International Bank

Meeting its own criteria

Commercial International Bank's start in 1975 was uncertain. It was the country's first joint venture bank allowed in Egypt under President Anwar Sadat's "Open Door" policy, and was launched following a dinner agreement with Chase Manhattan's chairman Mr David Rockefeller. But, CIB has emerged as one of the most actively traded companies on the Cairo stock exchange with a market capitalisation of more than E£2bn, about one-twelfth of the total.

Earnings for the last two years have been almost equal to the consolidated earnings of Egypt's four public sector banks, although each of these has greater assets than CIB.

Over the last decade return on equity has averaged almost 20 per cent a year, rising to 25 per cent over the last two years.

In the process the bank has earned the respect, albeit sometimes grudging, of its peers. In 1994, after selling 1.5m shares to the public, its share price was E£260 ($76.50). "It will be very difficult to sustain growth based on that share price," was the remark of one foreign banker at the time. Today CIB's share price is pounds E£438-E£442.

In 1987, Chase sold its 49 per cent holding for a handsome profit to National Bank of Egypt (NBE), the majority partner; and CIB reverted to being an almost wholly-owned subsidiary of NBE. Practically no one gave CIB a future.

"But two important lessons had been learned," says Mr Adel el-Labban, CIB's managing director "The first was the lasting value of the technology, methods and skills acquired from Chase. The second was NBE's recognition of how valuable Chase's connection had been.

"Instead of using its ownership power to dominate CIB, NBE proved to be an enlightened owner. It wisely separated ownership from management and allowed CIB to operate independently. CIB's fundamental business strategy remained the same: to cater to the wholesale banking needs of private Egyptian and multinational companies."

In 1990, CIB decided to increase its paid-up capital and enlarge its shareholder base by selling NBE's shares to employees of both NEB and CIB.

These restructuring and expansion plans preceded, and their implementation neatly coincided with, Egypt's May 1991 Economic Reform Programme, which radically transformed the domestic banking scene. The reforms deregulated local currency funding and lending operations, liberalising domestic foreign exchange markets and eliminating the fixed rate tariffs of services.

CIB's paid-in capital increased five-fold between 1989-1992. NBE's shareholding dropped to 69.9 per cent; CIB and NEB employees, who held the balance, had a healthy incentive in the bank's development; and at the same time the shareholder base was broadened to nearly 5,000.

Meantime profits were being mostly ploughed back into reserves. For one thing NBE, being a state bank, had no incentive to receive fancy dividends; and secondly, as Mr el-Labban says, "this was a period of economic stagnation in Egypt during the period of the Kuwait crisis and the early stages of economic reform."

By 1993 however, the situation was beginning to change from one of "cosy regulation" to one where the deregulated market made it essential to create a still higher capital base to take advantage of increased wholesale business.

CIB's response in September 1993 was to launch Egypt's largest public flotation to date, offering 1.5m or 30 per cent of issued shares in both local and foreign currencies, with the International Finance Corporation (IFC), the private sector affiliate of the World Bank, underwriting 200,000 shares worth $15.5m.

The public subscription was a double success. Capital was increased 60 per cent to E£400m ($117.6m). As important was the fact that NBE did not take part, so its shareholding was reduced still further from 69.9 per cent to its existing 42.15 per cent, thereby relinquishing outright control of the bank for the first time and effectively privatising CIB.

Today there are some 15,000 individual shareholders who collectively own 50.2 per cent of the stock with no individual having more than one per cent. In addition to NBE's holding, the IFC has five per cent and The Arab Investment Company, based in Riyadh, 2.65 per cent. Earlier this year, CIB announced its intention to dilute further NBE's shareholding – and make this stock available – on the international market through an issue of Global Depository Receipts.

CIB's strategy has focused on catering to the domestic and foreign private sectors in Egypt in sectors spreading from industrial companies to tourism and petroleum. Loans, mostly to selected companies in the textile, petroleum and chemical sectors, have increased almost five times to E£5.6bn in the last six years. "We want to do more wholesale corporate as well as more retail lending, and aim to be the first financial services conglomerate," says Mr el-Labban.

In pursuit of this quest, CIB decided in 1994 to spin off investment banking activities into a subsidiary, Commercial International Investment Company (CIIC) with an initial capital of E£25m, since increased to E£175m and now being doubled to E350 million ($102.9m).

Other potential growth areas include insurance, "still a young market in Egypt," where Mr el-Labban sees "clear synergies to insure receivables and warehouses with our clients well-based to be buyers of insurance."

Within CIIC "we are seeking to create another layer of financial services, in underwriting, brokerage and portfolio management."

Robin Allen

■ **Stock exchange:** by James Whittington

Cairo's bear market stands defiant

Increasing numbers of foreign investors are gearing up for larger participation

Cairo's stock exchange has consistently defied predictions of an end to its bear market, now moving through its twentieth month.

Yet investors remain obstinately bullish that a renewed surge in prices is just around the corner. In one of the first reports on Egypt's bourse, HSBC's James Capel brazenly warns investors to: "Fasten Your Seat-Belt for Take-Off." While the latest Working Notes from the emerging markets specialist, Blakeney Management, threatens to eat a sheep's eye if the stock market fails to rise by more than 25 per cent in 1996.

Although the modern history of Cairo's bourse is very short, investors have had the best of the good times and the worst of the bad times. Three years ago the exchange in downtown Cairo was little more than a rather elegant Turkish coffee house. But in early 1994 money began to pour in as the government signalled its willingness to privatise with the partial sales of the Paints and Chemicals Company, KIPICO, and the Ameryah and Alexandria cement companies.

Retail investors and newly established mutual funds went into a buying frenzy and although the amounts of money handled were tiny compared to other emerging markets they represented a flood to the Egyptians. Prices shot up by over 120 per cent in dollar terms. Turnover and market capitalisation also multiplied. And at its peak in September 1994 a weighted average of the market's 25 most active companies had reached a price/earnings ratio had doubled to about 13.

Fearful of a collapse, the Capital Markets Authority stepped in rather clumsily. To dampen demand it suspended all new licenses for mutual funds at the same time as the government was raising the pace of supply with more privatisations. Some of the more actively traded stocks responded by falling 20 per cent in 1995.

Realising its mistake, the government lifted the ban on new mutual funds and although prices continued to drift downwards this year, the value of trade has increased significantly. Average daily trading volumes are currently in the region of E£12m and the market capitalisation of the 40 or so actively traded stocks stands at around E£14.6bn. The market's average p/e is 7.

Investors say the attraction of the market as it stands now is the cheap stock pickings combined with strong corporate performances and the solid fundamentals of the Egyptian economy.

There is huge potential demand as more mutual funds are established and restrictions are gradually lifted to permit the massive state-owned insurance companies and pension funds to trade in stocks.

The gradual decline in interest rates – cut from their present level of around 10 per cent for three-month treasury bills – will eventually attract many more local investors to the market's average dividend yield of 8-10 per cent and release some of the E£132bn currently held as deposits in Egyptian banks.

Furthermore, increasing numbers of foreign investors are gearing up for larger participation. James Capel recently launched the first offshore closed-end fund for Egyptian equities. And the stock market is due for inclusion at the end of this year on the International Finance Corporation's emerging markets index which is closely followed by all those markets' investment institutions.

On the supply side, the government has been talking at length about privatisation over the past few months. But even if only one fifth of the state assets earmarked for sale actually come to market this year it would still add hundreds of millions of dollars worth of new scrip.

While stock pickers in Egypt are not due to make fast cash under the current circumstances, most analysts say they should be able to multiply their investments over the next few years.

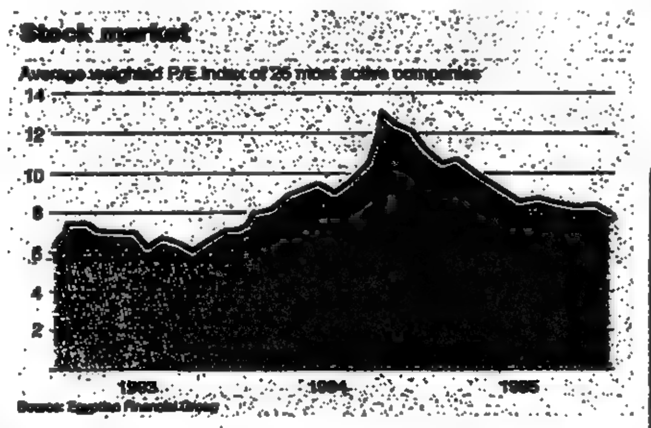
"The secret to this market is not only to focus on p/e ratios and dividend yields but to look at the adjusted net asset value of the companies compared to their market value. Many are under-leveraged and over-reserved with hidden value on their asset sides. Once this is unlocked investors can expect substantial gains," explains Mr Hassan Heikal, an executive director at the Egyptian Financial Group, one of the leading local merchant banks which published a comprehensive report on the market earlier this year.

Meanwhile, Egypt's bond market is also starting to mature. Following the first corporate bond issued by the joint-venture pharmaceutical company Hoechst in early 1994 – under-written by Banque Paribas it raised E£30m with a maturity of 5 years – a number of other participants have entered the market.

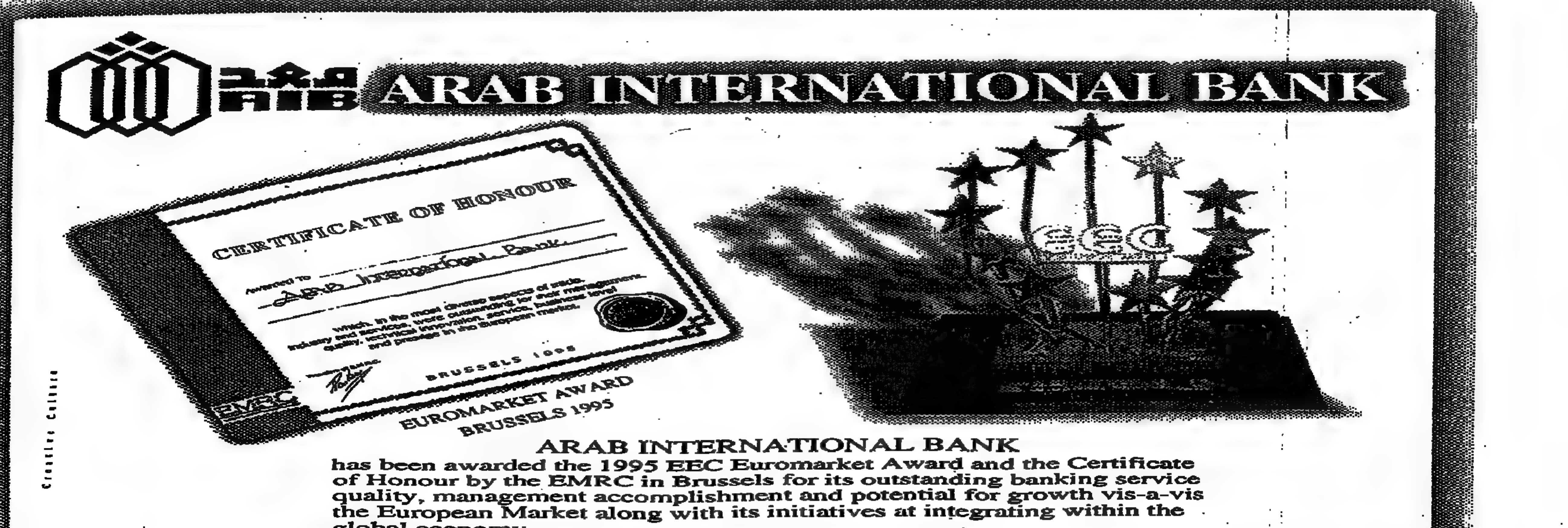
Earlier this year, Citibank took advantage of the tax incentives of raising funds through bonds rather than loans with a E£200m bond. This month the Egyptian American Bank, a joint venture between American Express Bank and the public sector Bank of Alexandria followed suit. The government has also started to shift from its reliance on short-term treasury bills to longer maturity notes. Last April, it issued its first 5-year bond of $855m with a 12 per cent coupon and semi-annual interest payments.

Stock market

Average weighted P/E index of 25 most active companies



Source: Egyptian Financial Group



■ **Education:** by David Gardner

Investing in the future

Critical to the vast reform is the first attempt in Egypt to replace rote by active learning

Two years ago, Egypt's Nobel prize-winning novelist Naguib Mahfouz declared that "the strength of a country is no longer measured by its military might, size of population, geographical situation, or material resources" but "by the wealth of its scholars and scientists, by its innovative capabilities *and ability to discover, achieve* and apply."

President Hosni Mubarak more prosaically concluded about the same time that on the second measure, Egypt was very poor, and that the state of Egyptian education was "a *problem of national security.*" Alarmed by low standards and skewed priorities which combined to increase both illiteracy and unemployable skills, *and determined to reclaim* Egypt's classrooms from the tightening grip of Islamic fundamentalists, *Mr Mubarak* has made educational reform the highly political centrepiece of his government's social policy.

The reform effort is wide-*ranging but the task is colos*sal. On conservative estimates, 52 per cent of Egyptians are illiterate, a proportion which rises to 70 per cent among women. The drop-out rate is around one in four, from overcrowded, dilapidated schools, *often without libraries* or books, desks or laboratories, playgrounds or homework.

Mr Hussein Kamel Baha'a el-Din, Egypt's education minister, says when he took over in 1991, the pressure of numbers was so great that "most of our schools operated four shifts a day, giving children one and a half hours tuition each, sending them back and into the labour market with no real education ...This was a real crisis, a threat to our future," adding that through the state's failure, "the fundamentalists had taken control of our schools."

Over the past four years, Egyptian security has got the upper hand against Islamic militants fighting to overthrow the government. But fundamentalism has seeped into society through the more mainstream Moslem Brotherhood's influence in schools, universities and a parallel welfare system and the govern*ment's dependence on a con*servative religious establishment to outflank the Islamists.

Under Mr Baha'a el-Din, a distinguished paediatrician before entering government, nominal spending on education *has risen from 9 to 16 per cent* of public expenditure. Investment has nearly quadrupled, from E£2.6bn to E£11.8bn a year, with 5,500 new schools built – more than in the previous 40 years.

He has transferred more *than 1,500 Islamists from* teaching duties; attempted to ban the *hijab* or veil from girls' primary schools and to secularise the curriculum; and started *sending teachers for training* to the US, UK, Germany and France, so they come back as "trainers of trainers".

Mr Baha'a el-Din seems close to persuading Mr Mubarak to back a vast campaign aimed at wiping out illiteracy in Egypt *by the end of the century – a* national mobilisation which in its scale recalls the "literacy crusades" of Nicaragua and Cuba in the 1980s and 1960s, or the education campaigns of Maoist China.

The Egyptian cabinet is dis*cussing plans* to teach 4.5m people a year to read and write. The idea is to dip into the large pool of "educated unemployed", recruiting 150,000 university graduates, and making them responsible for 30 illiterates each a year. They would be paid according to performance, from a new budget line the ministry wants of around E£600m a year.

Mr Baha'a el-Din's record in securing scarce government funds for his reforms is impressive.

But spending per caput on education, at around $25 a year, is still low even by developing country standards. Yet there is a school of thought within the government that the proceeds from privatising state assets should primarily be devoted to education.

If the government meets its privatisation targets and uses the receipts to pay down domestic debt, then the recurring savings on its interest bill could release around E£4bn a year. Money, however, is only part of the problem. Mr Baha'a *el-Din believes he has regained* "over 90 per cent control" over Egypt's schools. "No one can dare now to teach outside the national curriculum," he says, "I am confident we are winning."

But the rot goes deep. The late president Anwar Sadat started consciously to Islamise Egyptian education 25 years ago, to counter the Left and the Nasserists. The fundamen*talists seized well this state*-provided opportunity, piling their forces into the teaching not only of religion, but of history and Arabic as well, even to the extent of getting Christians banned as Arabic language teachers.

School textbooks even now reek of prejudice against Jews and Christians, and much of what passes for education consists of memorising the Koran. *There are still, moreover, some* 9,000 religious schools outside the Ministry's control, about half of them under the control of Al-Azhar, the thousand years-old mosque and university which, although the linchpin of the religious establishment, "puts an even more conservative spin on the Koran than the fundamentalists," as one diplomat expresses it.

Critical to the reform, there*fore, is the first attempt in* Egypt to replace rote learning by active learning, both to raise standards and immunise schools from fundamentalism. This is a prodigious challenge to a millennial Islamic tradi*tion. Mainstream scholars* closed off Islam to speculative thought in the 10th Century, limiting philosophy and theology to a tiny elite, and confining the masses to perfecting their intonation of the Koran and absorbing received fact.

Working upwards from the primary school system after a long period of (relative) overinvestment at university level, the ministry is trying to uproot this habit of passive learning. It is gradually introducing computers and requires that 30 per cent of classroom time is spent on activities like group discussion, library research and drama.

The new emphasis is on *skills, agility and innovation*, not only because modern economies require this, but to to encourage independence of mind. "Those who are accustomed to critical and analytical thought will always be suspicious of such [fundamentalist] ideas," Mr Baha'a el-Din says.

Meanwhile, the vocational training system spews out between five and seven times more technical workers than *the economy needs, according* to the World Bank. The Islamists, moreover, are fighting back, through repeated challenges in the courts, and by tarnishing the reforms as a Western-backed attempt to destroy Islamic culture.

"Ultimately," says Mr Youssef Boutros Ghali, minister of state for economic affairs and a leading reformer, "in the 21st Century what is going to make or break this country is education."


Students the target: 52 per cent of Egyptians are illiterate *Thomas Hartwell*

■ **Islam:** by David Gardner

Battles won, but not the war

The political field is so reduced that the mosque is left as the key rallying point of opposition

The Egyptian government keeps on winning battles *against Islamic fundamental*ism, only to find that the theatre and nature of the war keeps expanding.

The security services had by this time last year largely succeeded in confining the Gama'a al-Islamiya (Islamic Group), which in 1992 launched a violent campaign to overthrow the regime, to three small and impoverished districts of the upper Nile valley.

Then, in June, the Gama'a narrowly missed assassinating President Hosni Mubarak in Addis Ababa while he was on his way to an African summit. In November, Islamist suicide-bombers destroyed the Egyptian embassy in Islamabad. Most devastating of all, last month the Gama'a murdered 17 Greek tourists at a hotel near the Giza pyramids, setting back the strong recovery of *Egypt's tourism industry and* the image of stability fostered by the government.

Politically, the government has intensified its crackdown on the more mainstream Moslem Brotherhood, the movement which started modern *Islamic revivalism in Egypt* in 1928. It has jailed hundreds of its leaders and cadres, insisting they are no more than a political front for the armed groups. The onslaught against the Brothers' attempt to translate their growing social and union influence into parliamentary representation was so great that it turned last year's national assembly elections into a violent, rigged, *one-horse race, with the gov*ernment's electoral vehicle, the National Democratic Party, returned in 93 per cent of the seats.

But the strategy looks shaky. It depends on the support of an army which is itself being penetrated by fundamentalists, and on paying a high price to co-opt a religious establishment which in important respects is more conservative than the fundamentalists.

The results are everywhere visible. The proliferation of images of President Hosni Mubarak and his entourage on pilgrimage in Mecca have set a new norm of official religious ostentation, while the government struggles to bring under its control the estimated 40,000 unlicensed mosques which have sprung up. Islamically correct dress *is the rule for all* but a dwindling minority: cassettes of popular preachers outsell pop and folk stars: bookshop owners near Cairo's main university say they sell almost exclusively Islamic texts; and Islamist televangelists, preaching among other things that the Koran forbids organ transplants, are among the country's best-known figures.

Establishment clerics, mean*while, have been allowed to* ban books and censor films, endorse the pre-Islamic, African tradition of female genital mutilation. And to get away with defending the murder of secularist writers like Farag Fouda three years ago, which *followed a fatwa (edict) on his* work from Al-Azhar mosque and university, the 1,000 years-old, now state-funded Islamic university. "Al-Azhar passed *sentence, we executed it,"* his assassin later said.

As the government tries to *outflank the Islamists with* Azhari clerics, Egypt's traditionally pluralist civil society is retreating before the advance of a creeping theocracy. *Mr Mustafa Mashhour*, the Supreme Spiritual Guide of the Brotherhood, says "they have the police and the army, and on the surface they look like the winners. But we have been able to change society. In time we'll be the winners."

His confidence, after 19 years in jail, is not without foundation. First, the government's refusal to distinguish between terrorism and dissent, using *blanket repression against* both, has so narrowed the political field that little but the mosque is left as the rallying point of opposition. Second, by *competing on fundamentalist* territory, the government is enlarging the Islamist constituency – and the Brotherhood, a far greater political threat than the Gama'a, is the main beneficiary.

One minister, rare in expressing doubts about this means of confronting the Brothers, remarks that "if I had a football team, I would not take it to a basketball match."

*But the government is ada*mant. "If ever they reach power, this will be Iran," says prime minister Kamal el-Ganzouri. "Religion is just being used by the Gama'a and the Brothers, who are one and the same," insists General Hassan *el-Alfi, the Interior Minister.* "You would see that the ones who would take over would be the Brotherhood."

Fortunately, however, there *is as yet no clear sign* that the repression of political Islam has enlarged the armed groups, made up in important part of former volunteers in the war in Afghanistan. Indeed, the most significant move has been in the other direction: a bid by younger Brothers to set up an ostensibly liberal Islamist party called Al Wasat or The Centre. It is led by a 34-year-old engineer, Mr Abul-Ala Madi, and included two maverick Christians and four women among its 74 founders. "If the government cares for stability it should accept our party," Mr Madi said in February, describing it as "a civic platform based on the Islamic faith, that believes in pluralism and the alternation of power," rather than a religious movement. Mr Madi is now in jail, deemed to be the author of just another fundamentalist conspiracy to overthrow the regime.


Mustafa Mashhour: the Moslem Brothers' 'guide' *Thomas Hartwell*

Nevertheless, the Al Wasat venture could be construed as an attempt to modernise political Islam. Another sign in the same direction is the government's appointment in March of the former Grand Mufti, Mohammed Sayed Tantawi, as Grand Sheikh of al-Azhar, to succeed the late, Saudi-influenced Sheikh Gad al-Haq Ali Gad al-Haq, Egypt's foremost proponent of female circumcision and even crucifixion and quartering for Islamist militants. Sheikh Tantawi has come out against genital muti*lation of young girls, supported* the government ban on the veil in girls' primary schools, and in 1989 ruled that the earning of interest was not *riba* – usury, condemned by the Koran – but *ribah*, legitimate profit. In 1990 he wrote a trea*tise demonstrating that Islam* since its inception has supported family planning, over 5m copies of which have been distributed throughout the Moslem world.

One of the striking elements in the Al Wasat programme, moreover, is its espousal of *ijti-had* – the updating of Islamic law and practice by using reasoned analogy to deal with change unforeseen by the *Prophet – a practice closed off* by Islamic jurists, along with philosophy and theology, in the 10th Century.

One of Egypt's most astute commentators, Mr Mohammed Sid Ahmed, says "we will not avoid this growing Islamic wave, it's too deep, too fundamental." But, he goes on, "there is another phenomenon going on inside it: the first signs of a certain Calvinisation of Islam," the beginnings of a reformation, and possible ulterior renaissance. It will be an internal battle, he says, excluding intellectuals like himself who "are the product of thinking whose epicentre is Europe; in terms of our idiom, it will look very odd."

But global economic "competition will require that we cannot be the slaves of a frozen scholastic Islam," Mr Sid Ahmed argues. Phenomena like Al Wasat and figures like Sheikh Tantawi could be harbingers of such a debate, but only if the government becomes confident enough to let it take place.

FINANCIAL TIMES
COMPANIES & MARKETS

Monday May 20 1996

Eurotunnel finance director to retire

By Geoff Dyer in London

Mr Graham Corbett, finance director of Eurotunnel, is to retire from the Anglo-French operator of the Channel tunnel at the end of next month.

His departure comes at a crucial time in the group's refinancing negotiations with its 225 banks, with which Mr Corbett has been closely involved.

Eurotunnel has been in talks with its banks since last September, when it suspended interest payments on £8bn ($12bn) of debt after deciding it could not meet the payments from revenues for many years.

The group of six banks which is leading the negotiations has agreed an outline set of proposals, however a settlement is thought to be still a long way off. A further announcement on progress in the talks is expected at the group's annual meeting on June 27.

Eurotunnel now has two key board vacancies to fill, as Sir Alastair Morton, the British co-chairman, is due to retire in the autumn, although he has

Corbett: going next month

been asked by the board to stay on until an agreement has been reached with the banks.

The departure of two such key figures from the British side of Eurotunnel is expected to shift the balance of power in the bi-national group towards France, home to about 70 per cent of its shareholders.

The two other most senior Eurotunnel directors, Mr Patrick Ponsolle, the other co-chairman, and Mr Georges-Christian Chazot, the chief executive, are both French.

Eurotunnel said it had not yet chosen a successor to Mr Corbett. Mr Bill Mackenzie, the deputy finance director who for most of last year stood in as acting commercial director, is thought to be a strong internal candidate.

Mr Corbett has been involved with Eurotunnel since October 1987, initially as financial adviser to the chairman and from 1989 as finance director. Before that he was senior partner for the continental European business of Peat Marwick, the accountants, based in Paris.

He is credited with playing a crucial role in keeping the project afloat, especially when it was close to bankruptcy in 1990, and has previously been involved in three gruelling refinancings. Mr Corbett is expected to continue to work for the company on a consultancy basis.

Groups to unveil 'network computer' plans

By Louise Kehoe in San Francisco

More than 50 companies, including some of the most influential in the computer industry, will today announce plans for "network computers", a new category of machines designed to cut the cost of personal computing.

Led by Oracle, the largest database software company, the consortium – which includes IBM, Apple Computer, Sun Microsystems and Netscape Communications – will endorse standards, demonstrate prototypes and announce production and marketing plans.

Mr Larry Ellison, chairman and chief executive of Oracle, has stirred controversy throughout the industry over the past six months by charging that PCs are too complex and expensive and proposing $500 NCs in their place.

Although Mr Ellison has promoted the NC as a lower cost alternative to home PCs, the first NCs will be designed for business use, according to industry executives, and most will sell for about $1,000.

NCs are essentially terminals that enable individuals to make use of software and data stored elsewhere via the Internet or a corporate network. Unlike PCs, NCs do not incorporate a hard disk for storing data and programs. This makes them less expensive to administer in a corporate setting and eliminates the cost of software purchases for individual users.

Today, supporters of the NC will endorse non-proprietary technical standards to define NCs. The "reference profile", based primarily upon existing Internet technology standards, will ensure that all NCs are compatible and capable of accessing the Internet.

By establishing "open standards" at the outset, the companies aim to create a broad market that is not dependent on the technology of one or two companies, as is the case in the PC arena, where Microsoft software and Intel microprocessors dominate.

IBM will demonstrate prototype NC products today and is focusing its development programs on desktop machines for office use. Apple Computer has latched on to the NC as a vehicle for its Internet strategy, which includes low-cost Internet access devices for the home. For Sun Microsystems and Netscape, which lead the markets for Internet servers and software, the NC represents a new growth opportunity.

Oracle will announce the formation of a new subsidiary, called Network Computer Inc, that will license NC software to manufacturers.

In addition to the five industry leaders, about 50 companies will announce NC products, components, software, distribution or marketing plans. NC manufacturers will include SunRiver Data, a leading US terminal manufacturer, Olivetti and Nokia of Europe and Mitsubishi Electric of Japan. Tatung and Mitac of Korea will make NC motherboards.

Motorola, Digital Equipment, Cirrus Logic and ARM, a subsidiary of Acorn Computer, will supply components for NCs. Distribution partners will include NEC and Hitachi of Japan. The GoodGuys a leading US electronics retailer, plans to offer NCs in its stores.

British Telecom, France Télécom, NTT, other large telephone companies and Internet service providers will endorse the NC.

Notably absent from the NC lineup are Microsoft and Intel. Although Mr Ellison and others associated with the NC launch have claimed that the new products will break the duopoly of the PC market, the first NCs, which are expected to be available this autumn, will be based on Intel microprocessors and some will be designed to run Microsoft Windows software.

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Drug trial results from a leading UK group are set to push valuation disputes to the fore

Biotechnology investors prepare for another leap in the dark

British Biotech, the UK biotechnology company, has a stock market valuation of more than £1.6bn, ($2.4bn), about the same as newly privatised Railtrack. Tomorrow that valuation could, according to analysts, rise by one third or fall by half, depending on the latest results from trials of a cancer drug called Marimastat.

How a company with no sales or profits – and little prospect of making any before the next decade – could be worth so much has led to heated debate among investors and analysts.

The argument is not limited to British Biotech. There are 12 quoted biotechnology stocks on the main market in UK with a combined market capitalisation of £4.6bn. A year ago there were seven, worth a combined £1bn.

The debate arises because, without sales and profits, conventional valuation methods such as price-earnings ratios, yields and cash flows cannot be applied to biotechnology companies, whose research programmes have yet to generate products.

One way to analyse biotechnology companies is qualitative: is the scientific principle behind a research programme likely to lead to a successful drug?

Take this scientific opinion and combine it with market data. If the science is good, and the drug is aimed at a poorly served medical area, such as Aids or cancer, the company is a good investment.

One problem with this approach is that its tends to give black and white answers. In reality, the prices of biotechnology shares anticipate a chance of success, rather than abject failure or unqualified success.

Besides, say critics of the qualitative approach, scientific research is inherently uncertain. "Anyone who thinks they can evaluate the science, when even drug company experts can't predict what will work, is talking pompous rubbish," says one analyst.

The alternative is to be quantitative, the approach that is now standard among analysts, fund managers and the pharmaceuticals industry when it wants to test the value of research work.

The principle is to picture a drug at a point in the future when it is on the market and can be valued as a mature product. That value is then discounted back to the present to take into account the time value of money.

The profile of each potential medicine takes two calculations into account:

● The chances of the drug being successful in clinical tests. These probabilities are based on historical studies which show, for example, that a drug entering the final stage of testing has a 60 per cent chance of reaching the market. As each stage of testing is passed, the chances of reaching the market change. This is why British Biotech's shares may move sharply tomorrow;

● Advantages the new drug has over rivals on the market and in development. This information comes from clinical trials. It is translated into a price at which the drug might be sold and the market share it may win.

The result is a "net present value" measured in millions of dollars to the company, or in cents per share for the investor.

Such calculations can justify today's biotechnology share prices, and British Biotech's in particular.

Mr Bill Blair, biotechnology analyst at stockbroker Greig Middleton, values the company at £25 a share, assuming Marimastat to be modestly effective, compared with Friday's closing price of £28.45. If the promise shown in early tests is maintained, the model values the shares at between £45 and £80.

Others are not far off. Morgan Stanley's model suggest that £30 is "about right". Lehman Brothers in London, one of the pioneers of quantitative analysis in the UK, says if the data tomorrow is favourable, the shares could rise to £35 each. If not, they could fall to £15.

But there is a small group of quantitative analysts who are aghast at such high valuations. At UBS in London, the model is showing a fair value for British Biotech at one third its present level. Even the best possible news tomorrow would value the company at £15 a share, says UBS.

Such caution is backed by some New York analysts whose domestic, and much larger, biotechnology sector has seen promising drugs disappoint in the final stages of testing. Some are rendered speechless by British Biotech's valuation.

"What can I say?" asks one. "This is insanity. If this was a US company it would be worth $500m (£331m)".

Some UK fund managers sympathise. "I think they're worth two-and-sixpence because most drugs fail to make it," says one. "But there are some apparently sane people who think it could be worth £10bn."

The dispute is nourishment for analysts and investors who favour the old-fashioned qualitative approach.

"Numbers are dangerous. They conceal a lot of subjective assumptions," says Mr David Brister, biotechnology specialist at 3i, the venture capital company.

For example, the rate at which future earnings are discounted to the present varies between 12 per cent and 25 per cent a year, depending on which analyst is consulted. Add various views on what the next decade might hold for Aids patient numbers or government drug pricing policies, and it is easy to see how similar mathematical models can create wildly differing valuations.

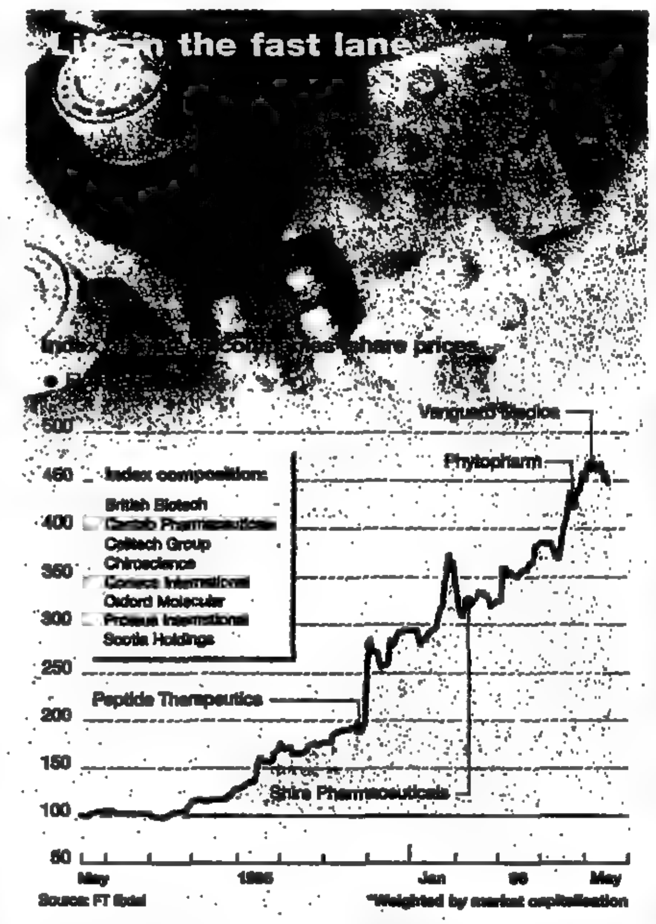
Mr James Culverwell, analyst at Merrill Lynch in London, says: "It's a load of rubbish. They're bickering about meaningless figures."

In one area, however, all observers agree irrespective of their analytical methods: biotechnology company shares are seriously risky investments.

"This sector is driven by sentiment more than most. There are some people out there buying British Biotech at £28 because they think they can sell at £35," says one fund manager.

"I'm in the business of paying people's pensions in 20 years' time. Railtrack is a better bet than British Biotech. But I could be wrong in the short term."

Daniel Green



INSIDE

Tampella

A rare cross-border Nordic takeover battle has risen in intensity with SKr2bn ($298m) cash bid by Sweden's Svedala, a leading mining and construction equipment maker, for Tampella, the Finnish industrial group which is also being wooed by Sandvik, the Swedish tools and specialty steels manufacturer.

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Mid Kent

Mr Ian Lang, UK trade and industry secretary, is to meet the board of Mid Kent today in an attempt to resolve some of the legal problems surrounding the proposed takeover of the water supply company.

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Faces

Ten years after Big Bang, there are few pure corporate brokers in the City. But Hoare Govett – of which Mr Peter Meinertzhagen (above) is chairman – has been enjoying a renaissance under the ownership of ABN Amro, the Dutch bank that bought it from Security Pacific in 1992. Mr Meinertzhagen relishes the revival, but admits that the City of London is no longer the clubby, amiable place where he trained in the late 1960s.

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Global Investor

Most investors have their favourite valuation measures, which they rely on for a rough indication of when a market is a buy. Broker James Capel has just published a study of valuation measures over the past 10 years in the US, UK, French and German equity markets. It concludes that many of the most commonly used measures were poor predictors. However, some of the ratios work well at certain of the four stages of the cycle which Capel identifies.

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UK pension fund adopts US technique

By Norma Cohen in London

John Lewis Partnership Trust for Pensions, the £600m ($912m) pension scheme for the retail chain's employees, has appointed a separate manager to decide the mix of assets.

The scheme is one of the first leading UK pension funds to appoint a so-called tactical asset allocation manager in a move consultants say could be the start of a much larger trend.

It has appointed First Quadrant, a US-owned fund manager, which uses derivative instruments to move in and out of different markets or different asset classes.

Investment consultants say that the new Pensions Act, which takes effect in April 1997, may hasten the use of TAA managers. It will force trustees formally to set investment strategy and require them to ensure that their mix of assets will produce enough cash to meet pension liabilities.

Several large UK insurance companies are also said to be considering for the first time the appointment of a specialist TAA manager.

Mr Roger Dennis, head of pensions at John Lewis, said the decision was made after the trustees considered their obligations to set investment strategy. Typically, UK pension funds select a group of "balanced" managers who then make their own choices about the mix of equities and bonds and about the mix of investments overseas.

"That means that the trustees are deciding the asset allocation just by appointing certain managers, although they do not realise it," Mr Dennis said.

The trustees of the John Lewis scheme felt that although they could meet quarterly to discuss the allocation of assets among the scheme's five fund managers, there was little they could do when they viewed some investments as overvalued. "All we could do was to set a long term strategy," Mr Dennis said. "We couldn't decide 'well, bonds look cheap this week'."

UK fund managers and trustees have typically deviated little from each other in deciding which asset classes to invest in, regardless of whether those assets are likely to produce the income streams necessary to pay pensions.

However, consultants have warned that many schemes may have to change their mix of assets as the percentage of pensioners outstrips the percentage of members still making contributions.

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STATISTICS

COMPANIES IN THIS ISSUE

Problems slow brewery deal

By Roderick Oram, Consumer Industries Editor

Bass is finding it difficult to craft a deal to buy Carlsberg-Tetley which will satisfy regulatory and commercial criteria, analysts believe. The long-awaited transaction would make Bass the UK's largest brewer again with a market share of around 38 per cent.

"Bass certainly wants to do this deal in some form but it is clearly difficult because of the time it's taking," one analyst said.

Buying Carlsberg-Tetley would bring Bass cost savings greater than the £75m ($114m) Scottish & Newcastle is achieving with Courage, which it bought last year. Moreover, reducing Carlsberg-Tetley's customer discounts to Bass's levels would add another £50m of pre-tax profit a year, NatWest Securities estimates.

Yet, the status quo still has merits. Bass's existing brewing operations will produce trading profits of about £140m this year, SBC Warburg estimates, and Bass is getting profits of £60m a year, handsome cash-flow and high return on capital from tenanted pubs.

The dilemma for Bass is that it is likely to lose almost all its tenanted pubs in satisfying competition authorities.

The merger would give it around 38 per cent of the UK market with even higher shares in some products and regions. S&N won approval for its purchase of Courage last year, giving it 28 per cent of the market, despite merged shares near 50 per cent in London and north-east England.

Since then, Mr Ian Lang has replaced Mr Michael Heseltine as trade and industry secretary and government competition policy seems to have become tougher and more arbitrary, as the electricity sector has seen.

If the Office of Fair Trading is consistent with its thinking on S&N last year, it will focus on the volume of beer Bass sells through its pub estate and on Carlsberg-Tetley's sales to the pubs of Allied Domecq, which is the brewer's joint owner with Carlsberg.

Under the tentative deal, Allied Domecq would sell out but Carlsberg would take a minority stake in Bass's brewing division.

To win approval, S&N had to cut its estate to 2,624 pubs to reduce sales "tied" to its pubs to 24 per cent of output. It also had to open to tender some of the supply agreements Courage had with the pubs of its previous owners, Foster's Brewing Group of Australia and Grand Metropolitan.

If the OFT treated Bass like S&N, it would require Bass to shed at least 1,500 pubs. Bass now has 1,446 tenanted pubs and 2,710 managed ones, selling 24 per cent of its output through them. Similarly, the OFT would require some reduction in the volume and/or duration of Carlsberg-Tetley's lucrative deal to supply Allied Domecq. The agreement, expiring in December 1997, accounts for 27 per cent of its output.

Takeover battle for Tampella intensifies

By Hugh Carnegy in Stockholm

A rare cross-border Nordic takeover battle has risen in intensity with a FM1.4bn ($298m) cash bid by Sweden's Svedala, a leading mining and construction equipment maker, for Tampella, the Finnish industrial group which is also being wooed by Sandvik, the Swedish tools and specialty steels manufacturer.

Svedala made a similarly-valued share exchange offer for Tampella last month, but appeared to have been blocked by the purchase by Sandvik of a 26 per cent stake and a subsequent grab by Rauma, a Finnish engineering group, for 14 per cent of Tampella. Sandvik said it was considering taking a majority in Tampella, but has made no further move.

On Friday, Svedala sought to retake the initiative by offering a cash alternative of FM10.50 per share alongside its previous offer of one Svedala share for every 16 Tampella shares.

Crucially, Svedala also said it was changing the terms of its bid, making it conditional on 51 per cent acceptance – or possibly less – instead of the 90 per cent it had previously insisted upon, to circumvent the blocking positions held by Sandvik and Rauma.

The revised offer represented a 52 per cent premium on the price of Tampella shares at the time of the first bid on April 9 when the shares stood at FM6.90. By Friday, Tampella shares had risen to FM10.00.

Svedala says its offer is more attractive to Tampella shareholders than that of Sandvik, which paid SKr500m for its 26 per cent stake to Kvaerner of Norway, but has not budged since. Under local rules, it is not obliged to make a full bid, even if it increases its stake.

"We are the only ones offering the same thing to everyone," said Mr Thomas Oldér, Svedala's chief executive. "Gaining 51 per cent is really the crucial level. That is the level where we can elect the board and that is where we can get all the synergies," he said.

Tampella made pre-tax profits last year of FM74m on sales of FM3.37bn. Its main attraction is Tamrock, its drilling and excavating equipment subsidiary in which Sandvik already has a 25 per cent stake.

Svedala's pre-tax profits in 1995 were SKr788m ($116.8m) on sales of SKr11bn. It says a merged group would offer a full range of equipment to the construction, minerals processing and handling industries.

Sun International to expand in the Bahamas

By Tim Burt

Sun International Hotels, the New York-quoted casinos and leisure group, has drawn up plans to invest $300m to double the size of its Atlantis resort in the Bahamas.

The project, the largest inward investment project in the Bahamian tourist industry for several years, is expected to transform the resort into the largest gaming venue in the Caribbean.

Mr Sol Kerzner, the South African entrepreneur and chairman of Sun International Hotels, said the scheme would be funded partly from the proceeds of a recent $330m institutional placing and rights issue.

"The completion of the equity offering and the dramatic improvement in our balance sheet means the the financing for this significant expansion is secure," he said.

He was speaking in London after SIH reported a sharp increase in first-quarter profits, with net income rising from $8.4m to $12.8m on sales up from $57m to $66.8m.

At Atlantis, the company's flagship resort, operating profits rose 24 per cent to $15.3m on sales up 20 per cent to $64.3m.

Earnings per share increased from 45 cents to 52 cents.

The company, which also operates casinos in France, the Comores and Mauritius, said it was pressing ahead with a $300m project to launch its first operation in the US.

It is developing a casino on land owned by the Mohegan Indian tribe in Connecticut, due to be completed this autumn.

Mr Kerzner said the 240-acre development at Montville, near Hartford, would employ 3,500 people. Under the deal, the 1,100 members of the Mohegan tribe will receive up to 70 per cent of the profits from the complex.

The remainder will be paid to Trading Cove Associates, a joint venture between Sun International and US hotelier Mr Len Wolman. Trading Cove has a seven-year management contract on the resort.

Mr Kerzner, who has sold his interests in Sun International of South Africa, the operators of the Sun City and Lost City resorts, said he was considering other similar developments in North America.

See Monday People

Spain 'intends to sell remaining Argentaria stake'

By David White in Madrid

The new chairman of Spain's partly state-owned Argentaria banking group has made clear that the centre-right government intends to sell its remaining stake of just over 25 per cent.

Mr Francisco González, who was appointed at a board meeting on Friday after the government asked the previous chairman, Mr Francisco Luzón, to stand down, said the disposal of the remaining state holding would be "logical" as part of a stepped-up privatisation programme.

However, he emphasised the need to maintain Argentaria as an independent banking group. Argentaria ranks number four among Spanish banks and number three in domestic commercial banking.

Mr Luzón's removal was the first change in the chairmanship of a state-controlled company made since the Popular Party administration took office two weeks ago, and signalled its intention of clearing the decks at the top of the public sector.

The outgoing chairman, who headed Argentaria since it was formed out of a merger of state banking interests in 1991 and who was previously chairman of Banco Exterior de España, now an Argentaria subsidiary, had declared himself in favour of moving to full privatisation, but argued that the state should maintain a presence for the time being to ensure the bank's independence.

It had initially been thought that the new government might maintain Mr Luzón in the job in recognition of his success in building up the bank.

The majority of shares in Argentaria were sold in three public offerings, the first two in 1993 and the last in March this year, bringing in a total of Pta442bn ($3.45bn) to the Spanish Treasury. The remaining 25.1 per cent stake is sufficient to give the state effective control.

Under the terms of the last offering, another privatisation operation through the stock market would not be possible before September.

Mr González, 51, is a well-known figure in financial circles as founder and head of the FG stockbroking company, which was recently sold to Merrill Lynch.

Analysts saw it as significant that the government had chosen a figure not linked to any of the other big Spanish banking groups.

Lang to meet Mid Kent board

By Jane Martinson

Mr Ian Lang, trade and industry secretary, is to meet the board of Mid Kent today in an attempt to resolve some of the legal problems surrounding the proposed takeover of the water supply company.

General Utilities, one of the two French companies which have proposed a joint bid for Mid Kent, has also been offered a meeting with Mr Lang. The Department of Trade and Industry has made clear that the takeover itself would not be discussed.

Instead, Mr Lang will hear arguments concerning the undertakings made by GU in 1991. Soon after privatisation, the Monopolies and Mergers Commission investigated the 30 per cent stake the French company held in Mid Kent. GU had to reduce this stake to 19.5 per cent in order to enhance competition.

When GU joined with Saur Water Services to make the offer last December, Mid Kent argued it was against the undertaking, which had no time limit.

Mid Kent applied for a legal decision on the case, but a few weeks ago a High Court judge ruled that only Mr Lang was able to deal with the issue of the undertakings.

The French companies argue that market conditions have changed and that the bid should go ahead, as it would help prevent water shortages.

GU owns Folkestone and Dover Water and Saur owns South East Water, two supply companies abutting Mid Kent.

Mr Lang is expected to make a ruling on the proposed offer, which values Mid Kent at £75m, by the end of the week.

NEWS DIGEST

Privatised Russian oil group ahead

New acquisitions and higher oil prices pushed up 1995 profits at Lukoil, the privatised Russian oil concern. Pre-tax profits rose to 3,430bn roubles ($700m) from 977bn roubles in 1994 and group sales increased to 29,574bn roubles from 7,476bn roubles. However, inflation makes comparisons difficult.

Industry analysts were encouraged that Russia's bellwether oil company appears to have stabilised but warned that its flat oil production and high costs cast a shadow over the unexpectedly strong profit numbers. Lukoil's results benefited from the acquisition of four oil companies last year. PermNeft, the largest acquisition, contributed 6.5m tonnes of oil to Lukoil's total production of 56.6m tonnes.

Mr Stephen O'Sullivan, Russian oil industry analysts at MC Securities, a London-based investment bank, said costs must be reduced for Lukoil to expand its markets in the future and Mr James Bunch, an industry expert at Moscow-based Renaissance Capital group, said: "Because of a static domestic oil market, Lukoil needs to increase its exports to enhance profitability significantly."

Mr Bunch noted that Lukoil had been more aggressive than any other company in expanding abroad and within the former Soviet Union, in particular resource-rich Kazakhstan and Azerbaijan. But the projects have not come on line yet. Lukoil, valued at $3bn on Russia's unruly equities markets, accounts for about 15 per cent of the country's crude oil output, with reserves estimated at 10bn barrels.

Matthew Kaminski, Moscow

Fiat plans divestment

Fiat, the Italian automotive and industrial group, is preparing "a medium to large-scale operation to divest non-strategic activities", Mr Cesare Romiti, the group chairman, said at the weekend. Speaking at a conference on Saturday, Mr Romiti said the planned operation was entirely aimed at concentrating Fiat on its core activities, and not because the company needed additional cash.

Last year, Fiat was forced to shelve plans to dispose of its chemicals and biomedical activities after the proposed merger between Ferruzzi Finanziaria (Ferfin), the financial holding company, and Gemina, the Italian investment group, was abandoned.

Mr Romiti did not indicate which activities might be earmarked for sale, although he said the objective of raising L600bn to L700bn ($453m) – the likely gain from the Gemina-Ferfin operation – had been "a possibility and not a must". Italian analysts speculated yesterday that Fiat might be considering the sale of its fund management and broking operations, part of Fidis, the financial subsidiary.

Andrew Hill, Milan

Placing for Allied Carpets

Allied Carpets is to float on the London main market this summer via a placing which should value it above £200m ($303m). The company is believed to be seeking between £10m and £20m of new money, while two of its original shareholders – CINVen, the venture capital group, and Asda, the UK's fourth biggest retailer – will be selling the bulk of their holdings.

CINVen holds 40.3 per cent of the company, while Asda has 40 per cent. Directors of Allied Carpets own 5.4 per cent of the shares and employees hold 14.3 per cent. Senior management, which includes the original 1991 management buy-out team from Lowndes Queensway Group, will retain the majority of its stake. Allied has a 12 per cent market share in the UK, close to that of Carpet-right, its main rival.

The group has 207 stores, primarily out-of-town, and employs 2,000 people. It trades in England and Wales under the Allied Carpets name and in Scotland as General George. In the 26 weeks to December 30, it reported pre-tax profits up 18 per cent to £7.3m on turnover of £110.3m. Baring Brothers International is sponsor and underwriter to the issue. Hoare Govett is stockbroker to the flotation.

Motoko Rich

Mediolanum offer opens

The public offer of shares in Mediolanum, the Italian life assurance and financial services group, opens today at a price of L12,000 a share, at the top of the range set earlier this month by the group's joint owners Mr Ennio Doris and Mr Silvio Berlusconi. About 23 per cent of the company is to be floated through a combined public offer and institutional placing.

The global co-ordinators of the issue – Mediobanca of Milan, flanked by SBC Warburg and Banca di Roma – have already received orders well in excess of the 22m shares available for the institutional tranche.

Mr Berlusconi and Mr Doris stand to receive L144bn ($93m) each for their shares, through their family companies, which share the ownership of Mediolanum. At least 10m shares are available for the public offer to ordinary investors and a further 4.7m shares are being held in reserve as an over-allotment option or "greenshoe". If the option is exercised in full, Mr Doris and Fininvest, Mr Berlusconi's family company, will together own 73 per cent of Mediolanum following the flotation. Trading in Mediolanum shares is expected to begin in Milan on May 31.

Andrew Hill, Milan

Abitibi-Price cuts output

The slump in newsprint markets has led Abitibi-Price, North America's biggest producer, to cut second-quarter output by another 50,000 tonnes. The reduction almost doubles Abitibi's idled capacity to 106,000 tonnes. The company has also reduced production of value-added papers by 34,000 tonnes, including a 10,000 tonne cut announced late last week.

Some paper prices, notably packaging materials, have recently reversed a nine-month slide. However, the newsprint market remains awash with inventories held by North American publishers and mills. The continued weakness in newsprint is partly due to conservation measures taken by publishers in the wake of steep price increases in 1994 and early 1995. Summer is also normally the industry's slowest period.

List prices for newsprint dropped earlier this month from $750 to $700 a ton. However, many deals are taking place at prices around $625–$650. Competition is especially intense in export markets, such as Asia, where producers traditionally funnel surplus production through brokers. Combined with action by other mills, the latest Abitibi cutbacks bring the reduction in North American capacity to about 6 per cent in the first half of 1996.

Bernard Simon, Toronto

Czech phone group results

SPT Telecom, the Czech national telephone operator in which PTT Telecom Netherlands and Swiss Telecom have a 27 per cent stake, has reported unaudited pre-tax profits of Kc2.78bn ($101m) under international accounting standards for the quarter to March 31, on revenues of Kc7.34bn.

Comparisons with the same period of 1995 were not available, but the company said the results included the consolidation of its 51 per cent interest in the mobile telephone company EuroTel. SPT reported pre-tax profits of Kc8.7bn for fiscal 1995.

Operating profit was Kc2.33bn in the quarter but a "mostly one time" foreign exchange gain of Kc417 boosted the pre-tax figure. SPT said "revenues and operating profit are expected to improve in 1996" compared with the previous year.

Vincent Boland, Prague

Visual Action acquisition

Visual Action Holdings, the film, television and audio-visual equipment specialist which came to the UK market in March, has acquired the 70 per cent of Film Facilities it did not already own. The consideration was NZ$7.25m (US$4.97m). Film Facilities is involved in the hire of cameras and related equipment. It made profits before interest and tax of NZ$1.16m in the year to March 31, 1995 on turnover of NZ$7.8m. Net assets at that date were NZ$4.25m.

Jean Marshall

Pace approaches float with lifted expectations

Raymond Snoddy profiles the West Yorkshire satellite decoder maker

David Hood (left) and Barry Rubery contemplate a market listing

Pace Micro Technology, a maker of satellite receiver systems that plans to come to the market next month, has significantly lifted its expectations on the amount of money it hopes to raise.

When the West Yorkshire-based company announced its plans to seek a listing last month, it said it hoped the flotation would value the company at more than £200m.

Pace and its advisers, Barclays de Zoete Wedd and Panmure Gordon, are now looking for a valuation in excess of £250m. The pathfinder prospectus is expected later this week, with flotation in mid-June.

Apart from the level of investor interest, two factors in the past month have boosted Pace's prospects.

British Sky Broadcasting announced that it would launch a digital satellite television service with more than 200 channels in autumn next year.

At the same time, the BBC outlined ambitious plans to take part in the digital TV revolution, including launching digital terrestrial services in the UK. To receive the services, viewers will need black-box decoders of the sort produced by Pace.

The company, based in an old woollens factory built by the Bradford industrialist, Titus Salt, has 50 per cent of the UK existing analogue satellite television decoder market in the UK.

Pace is already producing digital receivers for markets including Thailand and Australia, using the latest MPEG 11 international standard.

"We are the only volume manufacturer of digital MPEG 11 receivers in the world," said Mr Barry Rubery, joint chief executive of Pace, who has specialised in marketing since the company's foundation in 1982. Mr Rubery owns 25.7 per cent of Pace; the founder Mr David Hood, its technology specialist, owns 63.4 per cent.

For the nine months to May 2, Pace reported pre-tax profits of £9m on total sales of £126m.

Panmure Gordon, joint broker to the float, forecast that Pace sales and profits would increase to £198m and £17.1m respectively for the year to the end of May 1996, and to £254m and £24.4m next year.

Pace's pre-tax figures had been static at between £3m and £4m for the past three years until the recent leap. The company says the reason for the slow growth in profits was the cost of developing digital equipment – £3.4m in the year to March alone – and the creation of a specialist global sales and marketing force.

Three main uncertainties remain: the technological licences involved in many of Pace's 40 different products, whether other much larger companies will be attracted to the growing digital market, and the prospects for satellite television.

Pace says that most of its licences run until 2000. Mr Rubery concedes that, compared to companies like Sony, Pace is a "tiddler", but maintains that in its chosen field of media technology, it is a giant. "It is difficult to see how anyone, no matter who they are, can come in with a cheaper product," he says.

Pace believes that digital satellite eventually will become the norm rather than the exception for viewers around the world.

Nearly 45 per cent of Pace products are made in a vast floor at its headquarters, which used to house 900 worsted looms.

The rest is made mainly by UK sub-contractors, although it has manufacturing plants in Thailand and Poland.

One of the the main reasons for the flotation is to provide enough money to build up stocks during the year for what is a seasonal business. Most sales occur in the pre-Christmas quarter.

Mr Hood believes the digital technology developed for satellite television has much in common – as much as 90 per cent – with the production of other digital products, such as providing access to the Internet and even digital video disc technology.

"There are lots of things coming along which are almost the same as the digital satellite box," says Mr Hood, who could be worth about £80m if the planned sale of just over 50 per cent of Pace goes ahead at the estimated price.

WEEKEND SHARE WATCH

A digest of Saturday and Sunday comment on UK companies

■ A story in The Sunday Telegraph that Canadian holidays group Transet has its eye on an 11 per cent shareholding in First Choice drew an emphatic "no comment" from the company, Britain's third largest tour operator. Transet, described by the newspaper as roughly half the size of First Choice in stock market terms, was said to be talking to backers about making an offer for the First Choice stake, owned by Thomas Cook. First Choice runs Signature Vacations, the largest holiday business in Canada.

■ Bovis, the construction arm of the shipping to property group P&O, is set to land a £167m project management deal in Scotland, according to The Sunday Telegraph. The story suggests that Capital Shopping Centres will shortly name Bovis as construction manager for its big Braehead retail complex on the banks of the Clyde. Bovis said yesterday: "At this stage, we cannot confirm or deny the article".

■ Airbus, the European aircraft consortium, made a £400m profit last year, according to The Sunday Times. If so, this would be good news for British Aerospace, which has a 20 per cent share in the consortium. The newspaper also mooted the prospect of a stock market flotation for Airbus within the next four years, and pitched the price tag at about £7bn. An Airbus representative could make no comment yesterday.

COMPANIES AND FINANCE: ASIA-PACIFIC

Japanese construction companies sharply lower

By William Dawkins in Tokyo

Construction companies' profits are usually late in responding to economic upturns because of the long lead time between the winning of orders and the receipt of payment for the work. The performance of Japanese builders in the year to March is no exception.

Five of Japan's top builders yesterday reported steep declines in recurring profits – before tax and extraordinary items – ranging from 22.6 per cent at Obayashi to 64 per cent at Kajima, in contrast to the earnings recoveries being reported by other industrial sectors.

Three of them, Shimizu – the industry leader – Taisei and Hazama expect a smaller profits decline in the year to March 1997, while Kajima and Obayashi are forecasting moderate profits recoveries of 8.7 per cent and 5.6 per cent respectively.

Kumagai, a leading general builder and civil engineer due to report next week, has already predicted a 27 per cent profits decline for the year just ended, hit by losses on the liquidation of failed overseas projects.

On the strength of yesterday's figures Japan's beleaguered construction companies are starting to pass the bottom of the cycle. The larger organisations appear to be picking up new business much faster than the rest.

On average, Japanese construction industry orders increased 1.3 per cent in 1995, a very meagre recovery after three consecutive years of decline in which orders fell more than 28 per cent, according to construction ministry figures. Yet Shimizu's order book rose 7.2 per cent in the last fiscal year and Obayashi led the group with a 10 per cent rise. Taisei, the most diversified leading construction company and hence the most accurate barometer of the market, reported a more modest 6.3 per cent rise in orders, but still well ahead of the industry average.

It takes one to two years for new orders to feed through into profits, which explains why the earnings outlook for the current year is so lacklustre.

As for the year just ended, all the construction companies reported that the bulk of their order growth came from the *public sector, the consequence of the civil works spending packages adopted by the* government to stimulate the economy. But private sector orders showed very little growth, they said.

According to the Tokyo office of Salomon Brothers, the US securities house, private sector construction orders grew an estimated 4 per cent last year and made up less than 60 per cent of total orders. That contrasts with the peak of the previous economic cycle, in 1990, when private sector orders represented three quarters of the total.

The most recent public spending package is expected to run out this autumn. Industry analysts point out *that the extent of any* construction industry profits recovery will depend on whether private sector orders take up the slack in the next few months.

Long lead time means downbeat forecasts (Yen m)

	Sales	Recurring profit*	After-tax profit	Div (Y)	EPS (Y)
Shimizu					
Year to Mar 96	1,556,710	25,784	10,211	9	12.95
Previous year	1,880,900	36,586	9,259	9	11.74
Year to Mar 97†	1,450,000	25,000	10,000	9	12.68
Taisei					
Year to Mar 96	1,520,211	25,403	9,032	7	8.86
Previous year	1,557,600	34,988	11,951	8	11.72
Year to Mar 97†	1,550,000	25,000	10,000	7	9.81
Kajima					
Year to Mar 96	1,455,025	23,008	10,046	9	10.45
Previous year	1,795,700	64,387	10,026	9	10.43
Year to Mar 97†	1,500,000	25,000	10,000	9	10.40
Obayashi					
Year to Mar 96	1,221,364	30,320	10,894	8	14.62
Previous year	1,445,400	39,166	9,427	8	12.65
Year to Mar 97†	1,390,000	32,000	13,000	8	17.45
Hazama					
Year to Mar 96	544,179	16,200	2,021	5	6.29
Previous year	522,400	23,364	2,014	5	6.28
Year to Mar 97†	557,000	14,000	2,000	5	6.23

* before extraordinary items and tax; † forecast. Source: Companies

Bumper year for Japan's leading shippers

By William Dawkins

Japan's top four shipping companies have just had a bumper year of earnings growth, supported by the continued fast growth in trade between Japan and other Asian countries and continued cost-cutting.

The combined recurring profits – before tax and extraordinary items – of Nippon Yusen, Mitsui OSK, Kawasaki Kisen and Navix Line nearly trebled to Y32.19bn ($302m) in the year to March 31.

Three of the four, with the exception of Kawasaki Kisen, reported a rise in operating revenues, the equivalent of sales income.

All but Kawasaki Kisen are forecasting another year of increased recurring profits, though the growth expected in the 12 months to next March is much slower.

Expectations range from 1.7 per cent growth in profits at Nippon Yusen, Japan's largest and most diversified shipper, to 5.2 per cent at Navix, the smallest of the top convoy.

Navix is a specialist tanker operator and is, therefore, well placed to profit from the recent deregulation of oil imports to Japan.

Kawasaki's dependence on handling Japanese car exports, where the outlook is clouded by weak demand in the US and Europe, makes it the only one of the top four to expect a fall in profits this year and the only one to have reported a decline in operating revenues – by 2 per cent – in 1995–96.

Kawasaki forecasts a fall of almost 60 per cent in recurring income in 1996–97. According to its larger rival, Nippon Yusen, exports of Japanese cars to North America dropped and car shipments to Europe have stagnated.

All the leading shippers cited the increase in container freight fees on routes to North America as a factor in last year's robust profits growth.

However, their profits are as volatile as freight charges and price competition has since intensified in that market, the main feature in the lower earnings growth expected in the current year. To make life harder, the once busy bulk shipping market started to slow down last autumn.

All of them said they had sought to trim costs and to soften the damage to margins from price competition by increasing the proportion of contracts handed to cheaper foreign-registered freight lines.

Continued cost-cutting boosts results (Yen m)

	Sales	Recurring profit*	After-tax profit	Div (Y)	EPS (Y)
Nippon Yusen					
Year to Mar 96	521,385	14,264	2,596	4	2.21
Previous year	517,500	8,478	2,476	4	2.10
Year to Mar 97†	550,000	14,500	4,000	4	3.41
Mitsui OSK					
Year to Mar 96	473,907	5,330	-494	0	-0.45
Previous year	438,600	2,876	-572	0	-0.52
Year to Mar 97†	510,000	8,000	3,000		2.71
Kawasaki Kisen					
Year to Mar 96	328,123	9,627	1,593	0	2.72
Previous year	334,600	988	53	0	0.09
Year to Mar 97†	340,000	4,000	1,000		1.71
Navix Line					
Year to Mar 96	134,680	2,865	1,008	0	2.51
Previous year	132,700	1,011	165	0	0.42
Year to Mar 97†	146,000	3,000	1,000		2.55

* before extraordinary items and tax; † forecast. Source: Companies

Supply price rises hit Tenaga

By James Kynge in Kuala Lumpur

Tenaga Nasional, Malaysia's former power monopoly, yesterday reported a sharp decline in profits and blamed the slump on electricity price rises by suppliers from whom the company is obliged to buy.

Tenaga's group net profit for the six months to February 29 fell from M$798m in the year-ago period to M$370m (US$148m). Earnings per share fell from 26 cents to 12 cents. Turnover grew from M$3.29bn to M$3.72bn, reflecting Malaysia's growing power demand.

Tenaga's poor performance is rooted in unusual restrictions which bind the company. The government sets the price at which Tenaga sells its electricity and it also has a prevailing say in how much Tenaga must pay five new Independent Power Producers (IPPs), from which the company must buy.

The company said its falling profit was attributable "mainly to a substantial increase in the cost of electricity purchased from the Independent Power Producers". The government's move to raise electricity charges to an average 20.86 cents per unit from the previous 19.66 cents took effect on March 1.

The company gave no full-year profit forecast but said it expected an improvement now that electricity charges had risen. Economists predict Tenaga may show full-year net profit of about M$1.20bn against M$1.24bn last time.

The IPPs began business in 1994 after Tenaga was blamed for a series of disruptive black-outs. The new companies are expected to produce more than 30 per cent of the country's electricity needs this year, eating into Tenaga's market while the former monopoly is still solely responsible for building and maintaining the power infrastructure.

Tenaga, which has minority stakes in four of the five IPPs, has to buy from the newcomers at between 13 and 15 cents per unit. It puts its own generating costs at 8 cents per unit.

Second good year for Komatsu

By William Dawkins

Developing Asian countries' growing investment in infrastructure helped Komatsu, the world's second largest producer of construction machinery, to achieve increased profits and sales for the second year running.

Komatsu announced a 39.8 per cent rise in consolidated net profits to Y14.2bn ($133m) in the year to March, on sales up by 8.8 per cent to Y999.3bn, and forecast an even sharper improvement in 1996–97. It expects net profits to rise by 48 per cent to Y21bn, on sales up 4.1 per cent to Y1,040bn, reflecting an increase in Japanese private sector investment in new plant.

It also became the latest Japanese company to announce that it is to buy-back some of its own shares, a technique used at times of low interest rates to reduce the cost of capital and support the share price.

Komatsu said it would spend up to Y20bn on share repurchases, a move triggered by the suspension last year of a tax on imputed capital gains on shares left in the market.

Overseas sales rose by 9 per cent to Y338.4bn and domestic sales by 8.5 per cent to Y66.9bn. Sales of construction equipment, two thirds of the total, followed a familiar trend.

NEWS DIGEST

Mitsubishi Chemical surges after merger

Mitsubishi Chemical, Japan's largest chemical company, posted sharp earnings growth for the year to March owing to rationalisation and the effects of a merger with Mitsubishi Petrochemical in October 1994. For the 12 months to March, unconsolidated recurring profits – before extraordinary items and tax – rose 304.3 per cent to Y21.6bn ($203m) while sales rose 22.3 per cent to Y1,086.7bn. After-tax profits rose 48 times to Y8.6bn.

Sales of petrochemicals rose 37.8 per cent to Y593.4bn while its carbon and agricultural chemicals division posted a 5.2 per cent sales rise to Y172.6bn. Other products, including electronics and drugs, rose 9.3 per cent to Y320.7bn. In the current year, to March 1997, the company forecasts severe conditions for both export and domestic prices of petrochemical resins such as synthetic resins. It said a likely fall in profit margins would cut earnings Y20bn.

However, Mitsubishi still expects a 6.3 per cent rise in unconsolidated recurring profits to Y23bn owing to sales growth and streamlining efforts. After-tax profits are expected to rise 28 per cent to Y11bn and the company hopes to raise its annual dividend by Y1, to Y4 per share. Sales are expected to rise 0.4 per cent to Y1,090bn. *Emiko Terazono, Tokyo*

Minebea earnings rise steeply

Minebea, the world's top manufacturer of miniature ball bearings, saw sharp growth in earnings for the past business year owing to increased demand in its mainstay products and office automation equipment.

The company posted a 86.1 per cent rise in consolidated recurring profits – before extraordinary items and tax – to Y19.9bn ($187m) for the 12 months to March on a 9 per cent increase in sales to Y260.5bn. The company cited its efforts to improve its production efficiency and cost-cutting efforts for its 27.5 per cent increase in operating profits to Y34.8bn. Earnings were also supported by an improvement of its financial balance as the company suffered losses on revaluation of securities a year earlier.

Net income surged Y186 per cent to Y7.4bn *despite* an extraordinary loss posted as reserves for uncollectable loans to a furniture-import affiliate. Minebea also saw a decline in special losses since a year earlier it posted Y8.8bn in allowances for doubtful receivables. Parent recurring profits rose 128.9 per cent to Y17.2bn on a 14.3 per cent rise in unconsolidated sales to Y201.6bn. For the year to next March the the company expects consolidated recurring profits to rise 15.6 per cent to Y23bn on a 12.9 per cent increase in sales to Y294bn. *Emiko Terazono*

Yamaha doubles on brisk sales

Yamaha, the Japanese musical instrument maker, saw a sharp rise in annual earnings on the back of brisk demand for its electronics parts and karaoke machines. Unconsolidated recurring earnings – before extraordinary items and tax – for the year to March rose 117 per cent to Y13.6bn ($128m) on a 13 per cent increase in sales to Y383.1bn. After-tax profits rose 197.5 per cent to Y7.2bn owing to the absence of extraordinary losses stemming from liquidation of affiliates, which the company posted a year earlier.

Domestic sales rose 13.6 per cent to Y264.3bn while exports rose 11.7 per cent to Y118.8bn. Sales of musical instruments fell 2.9 per cent to Y165.9bn, audio equipment rose 29.3 per cent to Y51.7bn, and electronic equipment and parts rose 31.5 per cent to Y108.8bn.

For the year to next March, Yamaha expects unconsolidated recurring profits to rise 10 per cent to Y15bn on a 4.4 per cent increase in sales to Y400bn. *Emiko Terazono*

THE WEEK AHEAD

UK COMPANIES

TODAY
COMPANY MEETINGS:
APV, Grocers Hall, Princes Street, E.C., 12.15
Argos, Glaziers Hall, 9, Montague Close, London Bridge, S.E., 11.45
Bostrom, Stone Circle Road, Round Spinney, ...

Vosper Thornycroft
Interims:
Archimedes Inv Tst
Brooke Tool Eng
Eldridge Pope
Foreign & Colonial Emerging Markets Inv Tst

Merchant Retail
Mercury Euro Privatisation Tst
New Throgmorton Tst
York Waterworks
Interims:
Archer

12.00
BOARD MEETINGS:
Finals:
Airflow Streamlines
BTG
...

[illegible]

DIVIDEND & INTEREST PAYMENTS

[illegible]

FINANCE

Mixed blessings of TAA modelling

Norma Cohen examines Tactical Asset Allocation

In the aftermath of the ignominious stockmarket crash of 1987, there *were* a few heroes in US fund management.

Among these were a handful of houses who had placed their clients' assets in cash after following the quantitative approach to investing known as Tactical Asset Allocation.

Simply put, TAA is a strategy which seeks to take judicious advantage of the differences in returns available from various kinds of assets.

While every fund manager can more or less be said to do this, the term has come to be applied specifically to a mathematically-based approach which uses extensive databases and modelling.

TAA models take into account returns available on individual types of assets, data on the economic environment in which each asset class is operating, and measures of market sentiment. They draw on past patterns of behaviour to signal the timing of asset shifts.

The TAA approach requires managers to follow their models even when these are giving signals which appear to fly in the face of common sense.

So it was in 1987 when the US stock markets were soaring. Meanwhile, the clients of these TAA managers were screaming 'What are you doing?', recalls Ms Susan Dowse, partner in the investment practice at the actuarial consultants, Watson Wyatt.

The subsequent crash gave TAA a good name in the US, but the strategy has in recent years lost some of its allure, as it has failed to deliver the returns that many of its marketers promised.

The difficulty, consultants say, is that TAA seems to be most valuable during periods of volatility. So the almost completely uphill drive of the US stock market since 1987 has made it a frill which pension schemes simply do not need.

In continental Europe, where pension schemes and insurance companies have been generally more interested in quantitative approaches to investment than in the UK, TAA managers have made some modest headway, particularly in the Netherlands, Switzerland and Germany.

In the UK, however, a few US firms have struggled – largely unsuccessfully – to convince the traditional pension funds that their databases and mathematical models have something to add.

"The experience of trustees [who have tried TAA] has been very mixed," says Ms Dowse. Moreover, so few clients have actually selected a TAA manager that there is very little reliable historical data in the UK upon which to base an opinion, she adds.

Mr John Casey, partner at investment consultants Rogers

FUND MANAGEMENT

Casey, says TAA may have been used too broadly. Its best use, he says, is as a substitute for bonds.

"You shouldn't be a prisoner of your bond portfolio," he says. He recommends using TAA to switch out of equities into bond futures when the model says shares are overpriced.

Even that more limited application of TAA has yet to catch on in the UK. But now a leading UK pension scheme, that of the John Lewis Partnership, has retained First Quadrant, a US-owned quantitative fund manager.

First Quadrant will run a TAA "overlay" on top of the stock selection and indexed portfolios run by the scheme's existing fund managers. The mandate excludes the property and emerging markets portions of the portfolio, because there are no derivatives for these asset classes suitable for putting a TAA strategy in place.

First Quadrant is one of only a handful of managers in the UK who provide this sort of data-driven service. Two leading competitors, PanAgora Asset Management and State Street Global Advisors, are also US-owned.

Although traditional fund managers do a form of TAA by deciding, say, that UK equities will outperform bonds, the TAA on offer from First Quadrant and few US-based competitors, is far more elaborate.

Mr Roger Dennis, head of pensions at John Lewis, has relatively modest expectations for the mandate: "It will add value in the realm of one per cent per annum," he explains.

Three-quarters of the portfolio is indexed, with the remaining quarter actively managed. The TAA overlay will increase or decrease the scheme's exposure to different countries and different markets, a strategy carried out by buying and selling derivatives which mimic the performance of those underlying assets.

Significantly, First Quadrant's fees for the mandate are performance-related. "If they don't add value, they only get a small fee for re-balancing the fund," Mr Dennis explains.

But how can the pension scheme be sure that the TAA, rather than the underlying fund managers, is responsible for the outperformance?

The scheme has asked its independent performance measurers, WM Company, to figure that problem out. WM says it is still working on the solution.

But it is easy to see why it is a problem not only for John Lewis but for other pension schemes hoping to use TAA in the same way. The John Lewis scheme, for instance, uses J.P. Morgan as an active manager for its overseas equities portfolio, a task which requires the manager not only to make judgments about stock picking but about markets as well.

The challenge is to determine how much of the additional return is attributable to First Quadrant. "They don't get rewarded if J.P. Morgan does some good stock picking," explains Mr Dennis.

But if the John Lewis scheme finds that its TAA programme really does add value, it is easy to imagine that other large schemes will want to give it a try.

FACES

Meinertzhagen undaunted by modern times

Peter Meinertzhagen is a member of an endangered species. Ten years after Big Bang, there are few pure corporate brokers in the City of London, John Gapper writes. But Cazenove & Co and Hoare Govett – of which he is chairman – are still plying the trade for which time appears to be running out.

Hoare Govett has been enjoying a renaissance under the ownership of ABN Amro, the Dutch bank that bought it from Security Pacific in 1992, acting as broker to the aggressor company in several large hostile bids recently, including takeovers by Rentokil and Glaxo.

Meinertzhagen relishes the revival: "The confidence and reputation of the firm have been restored," he says. He is undaunted by ABN Amro's recent link with N.M. Rothschild & Sons, which will not affect the UK market.

The Meinertzhagens are one of the oldest City clans, having been German merchants in the 18th century before transferring to merchant banking in London. Family members have led several City firms, including Lazard Brothers and Cazenove.

Meinertzhagen, an affable man who trained as a salesman at Hoare & Co in the late 1950s, confesses to missing the former camaraderie of the Stock Exchange floor. The City is no longer such a clubby, amiable, place to work, he admits.

He recalls ringing up institutional investors in the late 1960s to tell them ICI's results, and their being grateful for the call. These days, a broker can hardly compete with trading screens in relaying standard information.

Yet Meinertzhagen insists that there is still be a place for the broker who knows companies and investors. "Personal relationships are vital. I don't think that will ever change," he says.

Farewell to Belgrade's turbulent banker

Dragoslav Avramovic, the governor of Yugoslavia's central bank, who was sacked last week after a protracted wrangle over economic reform with Serbia's President Slobodan Milosevic, is a modest man whose willingness to take the toughest job in Belgrade was an act of private patriotism, Laura Silber writes.

He returned to his native country in January 1994 when inflation was running at over 300 million per cent per month. He then became hugely popular in Serbia for stopping inflation and introducing the "super dinar", a stable national currency.

Nicknamed Super Deda (Serbian for Grandpa), the 76-year-old Avramovic, who spent more than two decades with the World Bank, recently came under intense pressure from Milosevic to print new money to finance agriculture, pensions and wages.

He refused, warning of a return to hyperinflation and economic catastrophe. The only way out, he said last month, was to accept conditions set by the IMF – the same terms as those outlined for the four other states which emerged from the ruins of former Yugoslavia. But Milosevic has refused to join the IMF unless the reconstituted Yugoslavia is named as the sole successor to the former communist federation of six republics.

Last autumn Avramovic put forward a programme of reforms which included privatisation, the liberalisation of foreign trade and the restructuring of the banking system. That was too much for Milosevic, whose outlook on economics shares more with the authoritarian Chinese model than Western concepts of monetary and fiscal discipline.

Avramovic disappeared from the state-controlled media three months ago. It was only a matter of time before parliament formalised the decision to cast him out.

Peter Meinertzhagen

Chapman flies the flag at Nomura

The Americanisation of the US operations of Nomura, the huge Japanese securities firm, will be completed on June 1 when the senior Japanese executive, Junichi Ujiie, relinquishes his role as co-chairman and co-chief executive officer to the locals, Maggie Urry writes.

Max Chapman, currently Ujiie's title-sharing partner, will become sole chairman of Nomura Holding America, and Michael Berman will step up from chief operating officer to CEO. Meanwhile, Ujiie returns to Tokyo to head the risk management division.

The move marks an important cultural shift, as Japanese firms have generally not entrusted the running of foreign subsidiaries to non-Japanese. That in turn has sometimes frustrated locally hired staff, who see a barrier to career advancement.

Chapman boasted to his staff last week that in the seven years since he joined NHA, it had transformed from a "Japanese securities firm operating in the United States into an American investment bank". Being American has not kept Nomura out of trouble with the US regulators, settling its most recent difficulty only last November by paying a $1m fine and suffering a censure from the New York Stock Exchange.

NHA's top management were accused by the NYSE of knowing about and failing to stop breaches of minimum net capital rules, even though the firm had been disciplined for similar actions in 1990.

Coming shortly after the Daiwa Bank episode, where Japanese top managers were alleged to have organised a cover-up, it was perhaps politic for Nomura to claim that "its style and operations are decidedly American".

Now Chapman, who is reputed to have received $20m out of NHA's record profits for 1995-1996, will have an ambassadorial role, "representing the organisation in the securities industry and business community".

Hermes names its watchdog

Britain's Hermes Investment Management has fulfilled its pledge to appoint someone with direct strategic experience for the highly-publicised job of corporate watchdog, writes Norma Cohen.

Peter Butler, 47, beat 270 applicants for the post, which involves targeting under-performing companies within the Hermes portfolio, managed on behalf of the UK's largest pension scheme. A former finance director of British Sugar, Butler was chief financial officer of Berisford International between 1991 and 1993, later holding the post of group finance director of Hi-Tec Sports.

Butler appears eager to play down the potentially confrontational aspects of his job. Although he was out of the country when the appointment was announced, he is officially quoted as saying: "My aim is to work with and not against management and I hope that by taking a positive approach and linking the best strategic ideas with Hermes' investment power, we will be able to enhance shareholder value."

FINANCIAL TIMES
MARKETS
THIS WEEK

Global Investor / **Philip Coggan**

Popular ratios can lose relevance

Most investors have their favourite valuation measures, which they rely on for a rough indication of when a market is a buy. Unfortunately, many popular ratios have been poor guides in recent years, notably in the US, where the dividend yield and price-to-book value measures have been screaming "sell" for some time.

Lovers of ratios face two problems. The first is that it is possible for the importance of measures to change over time. One example is changes in tax laws, which can alter the importance of dividends to investors. Economic change is another factor; the increased importance of services, relative to manufacturing, in the economy may make asset-based measures less significant.

Another danger is the difficulty of disentangling cyclical factors from evidence that things really might be "different this time." Does the rise, in the US and UK, of profits as a proportion of gross domestic product really represent a long term shift in favour of capital over labour, or is it merely a recovery from the dog days of the 1970s?

When comparing bond and dividend yields, should ratios be compared with the inflationary 1970s and 1980s, or with the low inflation 1950s, when equities yielded more than bonds.

Broker James Capel has just published a study of valuation measures over the past 10 years in the US, UK, French and German equity markets. It concludes that many of the most commonly used measures were poor predictors, whether used in isolation or combined in a model. Measures which can work pretty well for individual stocks seem to be pretty meaningless at the overall market level.

However, some of the ratios work well at certain stages of the cycle. Capel says there are four stages: phase one, during recession, when interest rates fall and the equity market is re-rated; phase two, as the economy grows, interest rates rise, and the market is de-rated; phase three, earnings grow, reflecting the strength of the economy, lifting the market; and phase four, as economic growth peaks, interest rates rise and earnings fall.

The price-earnings ratio tends to be the most important measure in phases one and two of the cycle, whereas in phases three and four, the earnings yield (relative to bond yields) becomes more significant.

The US market, in particular, appears to be in phase three of the cycle, with earnings growth providing the momentum. That should be good news, since the earnings yield relative to bonds is one of the few measures which does not make Wall Street look expensive at the moment.

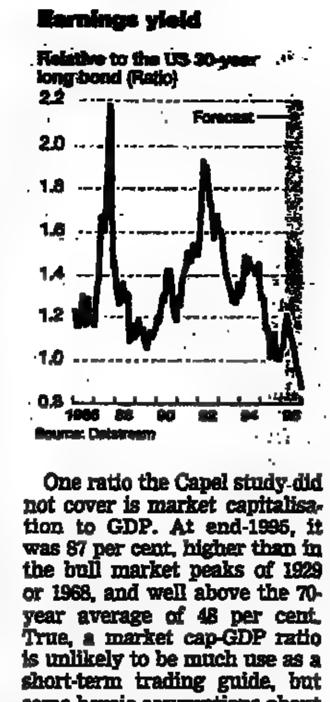
Assume that valuation measures tend to revert to the mean – otherwise they would be of little use. Using five-year averages, at the end of March the US looked expensive on the basis of dividend yield, price-earnings ratios, earnings yield relative to short term rates and dividend yield relative to bond yields. But the earnings-bond yield ratio was below the five-year average.

That relationship signalled a peak in 1990, and was giving bullish signs at the start of 1995. Its main failure in recent times was a misleading sell signal in 1992. Significantly, when valuation measures are at extreme levels (one standard deviation away from the mean), the earnings-bond yield shows a strong correlation with the market.

However, some of the earlier caveats about ratios ought to be mentioned here. The earnings-bond yield ratio may be dependent on two "different this time" assumptions. First, earnings could just be close to some sort of cyclical peak; for all the talk of the US economic revival, productivity measures have not been impressive. Second, bond yields may have seen the lows of what has virtually been a 14-year bull market; if inflation is not really dead, there could be plenty of scope for them to rise.

Earnings yield

Relative to the US 30-year long bond (Ratio)



Source: Datastream

Total return in local currency to 16/5/96

	% change over period US	Japan	Germany	France	Italy	UK
Cash						
Week	0.10	0.01	0.06	0.07	0.18	0.11
Month	0.46	0.05	0.28	0.33	0.82	0.50
Year	6.19	1.55	4.81	6.63	10.61	7.52
Bonds 3-5 year						
Week	0.56	0.61	0.13	0.28	0.52	0.39
Month	-0.04	0.30	0.52	1.08	2.85	0.87
Year	5.84	4.09	9.56	12.17	20.45	10.06
Bonds 7-10 year						
Week	0.92	0.63	0.62	0.41	1.10	0.71
Month	-0.57	0.26	0.30	0.99	4.20	0.69
Year	4.93	4.65	10.06	14.10	27.02	9.85
Equities						
Week	3.1	2.0	2.1	1.8	-0.1	0.5
Month	3.3	0.9	-1.0	1.8	7.6	-1.4
Year	28.4	29.8	19.2	12.0	-0.4	18.7

Source: Cash & Bonds - Lehman Brothers. Equities-© FT/Extel index Unit. The FT/S&P Actuaries World Indices are jointly owned by FT-SE International Limited, Goldman Sachs & Co. and Standard & Poor's.

One ratio the Capel study did not cover is market capitalisation to GDP. At end-1995, it was 87 per cent, higher than in the bull market peaks of 1929 or 1968, and well above the 70-year average of 48 per cent. True, a market cap-GDP ratio is unlikely to be much use as a short-term trading guide, but some heroic assumptions about economic changes are needed to justify such a high.

In the other countries studied, UK and German shares do not look expensive, relative to a five-year average, on an earnings-bond yield basis and all three European markets look cheap relative to cash.

For the UK, the measure that shows the most statistical significance at extreme points is the simple earnings yield. Since the earnings yield is merely the inverse of the price-earnings ratio, the Capel research seems to confirm the rule-of-thumb that the UK market looks expensive when the price-earnings ratio exceeds 20.

Indeed, there is a remarkably neat inverse relationship between the price-earnings ratio and the bond yield dating back to 1973. This suggests that it is Britain's poor inflation record and occasional high deficits, which by putting a floor under gilt yields, puts an upper limit on the stock market's rating.

COMPANY RESULTS DUE — Compiled By AFX News

Change of sales policy lifts Toyota for the year

Toyota, the Japanese automotive group is expected on Thursday to report pre-tax profits for the year to March of Y360bn-Y420bn ($3.3bn-$4.1bn), according to analysts' forecasts.

The company, which has changed its year-end to March from December, has not issued a forecast.

In the nine months to March 1996, Toyota recorded pre-tax profits of Y274.8bn. It said this would be equivalent to annual pre-tax profits of Y366.4bn.

A change of sales strategy, cost cutting and the dollar's rally against the yen in the six months to March 1996 had been the main factors in Toyota's performance in the latest term, analysts said.

They said one positive factor had been the shift in policy in the second half to March aimed at lifting sales of vehicles with higher margins. *AFX-Asia, Tokyo*

■ **Honda:** The Japanese automotive group, is expected to report tomorrow pre-tax profits of Y105bn-Y121bn ($990m-$1.1bn), for the year to March 1996, up from Y94.3bn a year earlier, with sales of recreational vehicles especially strong.

Honda has not released an official pre-tax profit forecast for the year, which analysts said was marked by rising domestic sales of recreational vehicles such as the Odyssey and CR-V and strong overall sales in the US. *AFX-Asia, Tokyo*

■ **ANZ:** Australia and New Zealand banking is expected to report tomorrow net profits, for the six months to March, before abnormal items of A$535m-A$550m (US$428m-US$470m), up from A$463m a year earlier.

ANZ is expected to announce an interim dividend of 15-17 cents against 15 cents previously. *AFX-Asia, Sydney*

■ **Royal Nedlloyd:** Is expected to report on Wednesday net profit of about Fl 25m ($14.7m) in the three months to March, down from Fl 77m a year earlier.

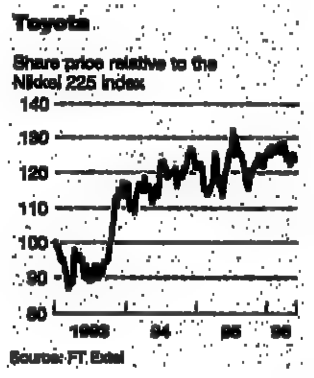
The results were expected to include Fl 25m-Fl 40m in non-recurring income from the sale of ships, with ordinary business operations resulting in a net loss of Fl 15m-Fl 30m, or 0.66-1.50 per share, analysts said. *AFX News, Amsterdam*

■ **Matsushita Electric:** Is expected to report pre-tax profits on Thursday of Y60bn-Y87.5bn ($563m-$820m) for the year to March 1996, down sharply from Y232.21bn the previous year.

Matsushita Electric has forecast pre-tax profits of Y75.0bn. *AFX-Asia, Tokyo*

Toyota

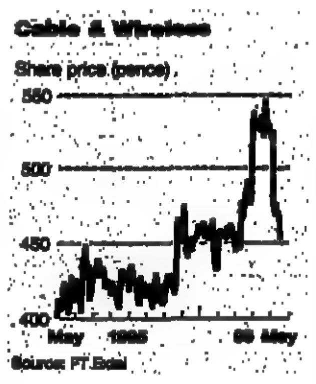
Share price relative to the Nikkei 225 index



Source: FT Extel

Cable & Wireless

Share price (pence)



Source: FT Extel

■ **NEC:** The Japanese computer group is expected on Thursday to report pre-tax profits of Y150bn-Y163bn ($1.4bn-$1.5bn) for the year to March 1996, up sharply from the previous year's Y74.72bn on buoyant demand for semiconductors, telecoms and computer products.

NEC has forecast pre-tax profits of Y135bn. *AFX-Asia, Tokyo*

■ **NTT:** Nippon Telegraph and Telephone is expected to announce on Friday pre-tax profits for the year to March 1996 in a range of Y310bn-Y385bn ($2.9bn-$3.6bn). *AFX-Asia, Tokyo*

■ **C&W:** On Thursday, Cable and Wireless, of the UK, announces its first figures since merger talks with British Telecommunications were abandoned. With satisfactory results from star subsidiary Hongkong Telecom under its belt and an improved performance from Mercury Communications in the UK, it is expected to return to growth with pre-tax profits for the full year of about £1.3bn ($1.9bn), including a net £79m of exceptional profits, compared with £844m in the previous year.

Earnings per share are estimated at 26.5p and a dividend for the year of 10p is expected.

■ **British Airways:** Announces full-year results today, with pre-tax profits expected to be £570m, compared with £452m last year before a £125m provision related to the airline's stake in USAir. Analysts will want to know whether BA has made any progress in finding another US partner, with American Airlines seen as the most likely contender.

■ **Marks and Spencer:** The UK high street retailer is expected to report profits of £975m-£985m ($1.5bn-$1.5bn) when it reports full-year figures tomorrow, a healthy increase on £924m the previous year. After reports of poor sales in some womenswear ranges, the market will focus on current trading. Other issues will be the company's plans to develop its mail order business and its thoughts on further overseas expansion.

■ **Courtaulds:** The UK chemicals company is expected to announce on Wednesday a fall in pre-tax profits for the year to March from £151m to about £130m ($196m). This is because weak demand and big increases in raw materials prices have squeezed margins on fibres. But materials prices have since reversed, and analysts expect the company to rebound in the current year, with pre-tax profits between £160m and £165m.

■ **Bass:** The UK brewer is expected to report on Wednesday interim pre-tax profits up 7 per cent at £278m ($419m) from last year's pre-exceptional £260m. Strong performances from Holiday Inns and UK pubs will offset flat beer profits and a fall in leisure profits which have suffered from National Lottery competition. The interim dividend is expected to rise to 7.6p from 7.1p.

■ **Storehouse:** The UK stores group, is expected to unveil pre-tax profits of about £108m ($163m), compared with £91.2m, when it reports annual figures to April on Thursday.

Smaller offerings take their turn

By Antonia Sharpe

The international primary equity market is producing just what is required after five busy months dominated by large-scale initial public offerings and privatisations – small offerings from a variety of specialist companies with strong growth stories.

Since the start of 1996, the high levels of institutional liquidity have allowed practically all the offerings which have come to market to be executed smoothly.

Liquidity is still high, which bodes well for the other large deals which are due to be launched before the summer. But since investors and bankers are becoming wary of the increasingly high valuations in the equity markets, modest-sized offerings from high-growth companies are a welcome alternative.

One such offering is a $60m IPO from Genset, a French biotechnology company which specialises in the identification of genes. CS First Boston is arranging the 4.2m share offering, which is expected to value the whole company at about $250m.

The company, which will be listed on the *nouveau marché* in Paris and on Nasdaq in New York, will use the proceeds of the offering to fund further growth and to allow its founders and early backers to realise some of their original investment.

Saes Getters, an Italian manufacturer of components for the semi-conductor industry, is also planning to list on Nasdaq, raising about $50m of new financing in the process. Lehman Brothers is arranging the offering of 3.1m shares. Saes Getter's Milan-listed shares were trading at about L80,000 each late last week.

Investors who missed out on the IPO of the Dutch retail and services group, Vendex, last year, will have another opportunity this week following the dissolution of Vede, a holding company which owns about 30 per cent of the ordinary shares. The Vendex shares currently held by Vede are worth about Fl 1.2bn, but the actual offering is likely to be about Fl 800m because Vendex' plans to buy back some of its shares with its excess cash. In addition, holders of Vede shares will be allowed to swap them for Vendex shares.

The offering of the shares, which are now worth Fl 51 each, compared with a flotation price of Fl 39, is being handled by ABN Amro, ING Barings and Morgan Stanley.

This week should also see the widely-expected flotation of part of the Spanish hotel group, Grupo Sol. After months of discussions about how to structure the offering, the company has decided to split itself into two companies, one owning the property and the other the hotel management business. Grupo Sol hopes to raise about $250m by selling about 40 per cent of the hotel management company.

Bankers say that such offerings should proceed smoothly, especially since they are coming at a time when the market is entering a lull between the close of large offerings such as Railtrack, Mediolanum and OMV and the launch of the next batch of big deals which include Portugal Telecom and British Energy.

Elsewhere, there has been a spate of convertible bond offerings from Asia, the largest being a $200m deal from Total Access Communications, a Thai cellular phone operator which was floated late last year. Lead manager Lehman Brothers said the bonds were mainly sold into Europe.

Bankers are concerned that the recent rush of issuance has created an overhang in the market which may take some time to clear because the audience for such deals is limited.

One syndicate manager commented: "Asian deals are not walking out the door at present so issuers need a strong story in order for their deals to sell."

FT/S&P ACTUARIES WORLD INDICES

The FT/S&P Actuaries World Indices are owned by FT-SE International Limited, Goldman, Sachs & Co. and Standard & Poor's. The indices are compiled by FT-SE International Limited and Goldman Sachs in conjunction with the Faculty of Actuaries and the Institute of Actuaries. NatWest Securities Ltd. was a co-founder of the indices.

NATIONAL AND REGIONAL MARKETS Figures in parentheses show number of lines of stock	FRIDAY MAY 17 1996 US Dollar Index	% chg since 29/12/95	Pound Sterling Index	Yen Index	DM Index	Local Currency Index	Local % chg from 29/12/95	Gross Div. Yield	THURSDAY MAY 16 1996 US Dollar Index	Pound Sterling Index	Yen Index	DM Index	Local Currency Index	DOLLAR INDEX 52 week High	52 week Low	Year ago (approx)
Australia (80)	207.38	9.1	202.88	139.80	164.56	172.26	1.4	4.25	207.11	203.12	139.63	165.48	171.77	212.18	162.88	171.95
Austria (23)	187.18	7.2	183.10	126.18	148.52	148.44	14.4	1.50	188.75	182.17	125.23	148.41	148.33	199.28	168.11	185.21
Belgium (27)	209.78	0.5	205.21	141.42	166.45	162.90	8.2	4.10	207.79	203.78	140.06	166.01	161.95	215.81	188.06	192.15
Brazil (28)	167.20	21.3	163.55	112.78	132.74	308.59	24.2	2.11	165.50	162.31	111.57	132.22	303.62	170.25	123.97	145.23
Canada (96)	163.88	10.4	160.31	110.47	130.03	162.59	10.9	2.34	163.72	160.58	110.37	130.80	162.15	164.22	134.14	139.51
Denmark (33)	294.35	1.9	287.93	198.42	233.55	255.84	8.3	1.50	292.49	286.84	197.18	233.68	253.93	305.17	272.15	276.01
Finland (22)	190.33	1.7	186.18	128.30	151.01	187.90	10.2	2.68	190.01	186.35	128.10	151.81	186.32	208.11	171.73	204.85
France (97)	197.57	10.1	193.27	133.19	156.76	160.22	18.4	2.99	199.25	191.49	131.63	156.00	159.38	198.39	167.70	183.67
Germany (60)	169.13	3.5	165.44	114.01	134.20	134.20	10.2	1.88	167.41	164.18	112.88	133.72	133.72	174.39	149.49	162.69
Hong Kong (58)	425.67	9.8	416.39	286.95	337.75	422.74	9.8	3.37	425.59	417.57	286.91	340.02	422.71	451.19	348.91	363.77
Ireland (16)	277.54	8.6	271.49	187.09	220.21	250.04	11.3	3.42	275.08	269.78	185.45	219.78	248.89	279.02	220.31	222.98
Italy (58)	84.53	14.7	82.69	56.98	67.07	97.62	11.8	2.24	82.35	80.77	55.52	65.80	95.73	84.53	67.22	79.10
Japan (481)	157.91	1.9	154.46	106.45	125.29	106.45	5.4	0.71	158.23	155.19	106.66	126.42	106.66	161.40	137.73	153.10
Malaysia (107)	566.22	16.7	553.88	381.70	449.27	542.79	14.4	1.83	563.03	552.19	379.58	449.84	540.63	585.09	425.77	520.86
Mexico (18)	1282.78	23.8	1254.80	864.73	1017.81	10377.52	18.9	1.36	1267.37	1242.94	854.43	1012.58	10279.65	1313.81	781.99	1044.06
Netherland (19)	292.84	7.4	286.46	197.41	232.35	227.90	14.2	3.15	294.65	288.97	198.65	235.41	231.06	295.22	237.16	242.03
New Zealand (15)	80.28	0.8	78.53	54.12	63.70	62.13	-4.0	4.42	79.76	78.22	53.77	63.72	61.62	85.49	78.29	83.98
Norway (35)	245.19	8.0	239.85	165.29	194.54	218.00	9.8	2.08	243.72	239.02	164.31	194.72	218.00	255.75	213.04	219.07
Singapore (44)	414.81	1.9	405.77	279.63	329.13	289.06	1.4	1.41	415.43	406.40	280.75	332.71	290.96	465.21	365.81	395.97
South Africa (45)	369.09	-8.9	361.28	242.07	284.92	339.08	10.4	2.12	359.14	352.21	242.12	286.94	342.05	437.76	339.91	349.75
Spain (37)	177.32	7.3	173.46	119.54	140.70	171.28	12.8	3.24	174.44	171.07	117.60	139.37	168.63	179.85	141.19	149.41
Sweden (48)	352.20	12.8	344.32	237.42	279.45	351.18	14.7	2.29	349.06	342.37	234.67	278.10	348.88	352.25	250.83	254.45
Switzerland (38)	235.65	-0.1	230.52	158.86	186.98	182.76	8.8	1.82	233.28	228.78	157.27	186.38	182.06	252.34	184.11	187.69
Thailand (46)	178.75	8.2	174.86	120.50	141.83	178.42	8.8	1.87	178.82	175.38	120.56	142.87	175.57	189.95	148.74	167.08
United Kingdom (201)	233.06	7.1	227.98	157.11	184.92	227.98	5.4	3.99	230.37	225.93	155.31	184.05	225.93	237.43	208.12	208.83
USA (626)	272.78	8.6	266.82	183.87	216.43	272.78	8.6	2.16	271.10	265.87	182.77	216.60	271.10	272.78	212.43	215.89
Americas (771)	249.23	8.8	243.80	168.01	197.75	209.50	8.8	2.18	247.73	242.95	167.01	197.93	208.23	249.23	195.09	197.84
Europe (715)	209.58	4.3	205.01	141.28	166.29	185.10	8.9	3.02	207.39	203.39	139.82	165.70	184.11	211.35	181.77	184.40
Nordic (138)	299.86	8.7	293.33	202.14	237.92	262.73	12.4	2.26	297.15	291.43	200.34	237.42	261.75	299.86	241.98	245.51
Pacific Basin (892)	170.67	3.3	166.95	115.05	135.42	117.61	5.8	1.16	171.79	168.47	115.81	137.26	118.33	177.01	148.86	162.69
Euro-Pacific (1547)	186.78	3.8	182.71	125.91	148.20	143.18	7.2	2.03	186.51	182.91	125.74	149.01	143.22	190.57	166.51	176.82
North America (722)	266.02	8.6	260.22	179.33	211.07	266.35	8.6	2.17	264.44	259.34	178.28	211.28	263.76	266.02	207.93	210.97
Europe Ex. UK (514)	191.59	6.2	187.41	129.15	152.02	158.89	12.0	2.47	189.70	186.04	127.89	151.56	159.16	192.67	163.30	165.42
Pacific Ex. Japan (351)	290.04	9.6	283.72	195.52	230.13	248.20	6.9	3.05	289.84	284.05	195.27	231.41	248.83	298.58	243.39	253.28
World Ex. US (1757)	188.03	4.0	183.93	126.75	149.19	147.64	7.5	2.03	187.74	184.12	126.57	150.00	147.77	191.55	167.35	172.42
World Ex. UK (2162)	212.26	6.4	207.64	143.09	168.42	179.13	8.4	1.80	211.69	207.51	142.71	169.13	178.67	212.80	179.23	189.06
World Ex. Japan (1882)	245.43	7.1	240.08	165.44	194.78	232.96	8.8	2.50	243.69	239.00	164.29	194.70	231.73	245.43	201.25	204.32
The World Index (2363)	214.17	5.9	209.50	144.37	169.93	183.67	8.0	2.09	213.42	209.31	143.88	170.52	183.28	214.52	181.82	185.42

 Base values: Dec 31, 1986 = 100; Finland: Dec 31, 1987 = 115.037 (US $ Index), 90.791 (Pound Sterling) and 94.94 (Local); Nordic: Dec 30, 1988 = 139.65 (US $ Index), 114.45 (Pound Sterling) and 133.88 (Local). Brazil, Thailand and Amsterdam Oct 31, 1994 = 100.44 (US $ Index), 104.07 (Pound Sterling) and 149.84 (Local). CONSTITUENT CHANGES DURING THE WEEK ENDING 17/5/96: Additions: Berkshire Hathaway Class B (Large Cap) (USA), Hafslund Asa A & B (Small Cap) (Norway) and Hycomed Asa A & B (Norway). Deletions: Hafslund Nycomed A & B (Norway) and Swiss Bank Corp. (Bearer) (Switzerland). Name change: Berkshire Hathaway to Berkshire Hathaway Class A (USA).

This announcement appears as a matter of record only.

New Issue / May 1996

517,500 Shares

Berkshire Hathaway Inc.

Class B Common Stock
($.1667 par value)

Price U.S. $1,110 Per Share

Salomon Brothers Inc

The undersigned acted as selling group members in the above transaction:

Advest, Inc. — Allen & Company of Florida, Inc. — Ameritas Investment Corp. — AmeriTrade, Inc. — Apex Securities, Inc. — Arthurs, Lestrange & Company Incorporated
Baird, Patrick & Co., Inc. — Robert W. Baird & Co. Incorporated — George K. Baum & Company — Bear, Stearns & Co. Inc. — William Blair & Company
Branch, Cabell and Company — Broker Dealer Financial Services Corp. — Brookstreet Securities Corporation — HD Brous & Co., Inc. — Alex. Brown & Sons Incorporated
The Buckingham Research Group Incorporated — Burnham Securities Inc. — Carolan & Co., Inc. — Cazenove & Co. — The Chapman Company — JW Charles Securities, Inc.
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Cowen & Company — Craigie Incorporated — Crowell, Weedon & Co. — CS First Boston — Dain Bosworth Incorporated — Dakin Securities Corporation
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Donaldson, Lufkin & Jenrette Securities Corporation — Dresdner Bank-Kleinwort Benson — A.G. Edwards & Sons, Inc. — Equitable Securities Corporation — Ernst & Co.
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Financial West Group — First Albany Corporation — First Analysis Securities Corporation — First Equity Corporation of Florida — First Hanover Securities, Inc.
First Honolulu Securities, Inc. — First of Michigan Corporation — Folger Nolan Fleming Douglas Incorporated — Frederick & Company, Inc. — D.E. Frey & Co.
Gabelli & Company, Inc. — Gaines, Berland Inc. — Gibraltar Securities Company — Gilford Securities Incorporated — Goldman, Sachs & Co. — Gruntal & Co., Incorporated
Guzman & Company — Hagerty, Stewart & Associates, Inc. — Halpert and Company, Inc. — Hampshire Securities Corporation — Herzog, Heine, Geduld, Inc.
J.J.B. Hilliard, W.L. Lyons, Inc. — Howe Barnes Investments, Inc. — Wayne Hummer Investments LLC — Interstate/Johnson Lane Corporation — Janney Montgomery Scott Inc.
Jefferies & Company, Inc. — Johnston, Lemon & Co. Incorporated — Edward Jones — Kennedy, Cabot & Co. — John G. Kinnard and Company Incorporated
Kirkpatrick, Pettis, Smith, Polian Inc. — Emmett A. Larkin Company, Inc. — Lazard Frères & Co. LLC — Legg Mason Wood Walker Incorporated — Lehman Brothers
McDonald & Company Securities, Inc. — Merrill Lynch & Co. — Mesirow Financial, Inc. — Moran & Associates, Inc. Securities Brokerage — J.P. Morgan & Co. — Morgan Keegan & Company, Inc.
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Redwood Securities Group, Inc. — The Robinson-Humphrey Company, Inc. — Rodman & Renshaw, Inc. — Roney & Co. — Rothschild Inc.
Charles Schwab & Co., Inc. — Scott & Stringfellow, Inc. — The Seidler Companies Incorporated — Muriel Siebert & Co., Inc. — Sisung Securities Corp — Smith Barney Inc.
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M.J. Whitman, Inc. — Wiley Bros., Inc. — The Williams Capital Group, L.P. — Williams MacKay Jordan & Co., Inc. — Young, Stovall & Company

MARKETS: This Week

NEW YORK By Tony Jackson

The main event for the US markets this week is the Federal Open Market Committee meeting on Tuesday. In the narrow sense it may well be a non-event, since few in the market expect policy to shift either way. But if the Fed puts out a statement on the background to its thinking, it will be scrutinised with particular care.

This is because the market is wholly in the dark over the direction of the Fed's next move. The latest poll of broking firms by Dow Jones shows a 50/50 split between easing and tightening, with guesses on timing ranging from this summer to some time next year.

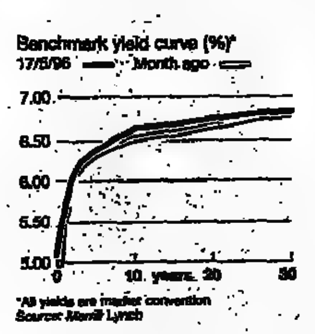
Amid this uncertainty, the stock and bond markets still offer a conflicting picture. The Dow ended last week close to an all-time high, and some stock indices hit records. But the long bond yield, while apparently retreating from the 7 per cent ceiling breached in the past fortnight, remained over 6.8 per cent.

There may be some clarification from retailers' results due this week: for instance, from The Limited on Monday and Kmart and Dayton Hudson on Tuesday. Results from the sector so far – in clothing especially – have been unexpectedly strong.

The main economic statistic due this week is the April figure for durable goods orders on Friday. The pattern has been erratic of late: down 2.5 per cent in February and up 2.5 per cent in March. This time, expectations vary from a 2 per cent fall to a 1 per cent rise.

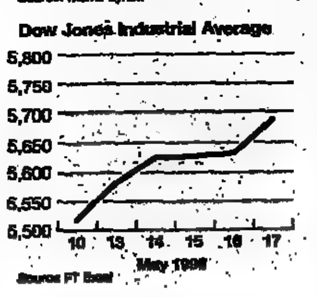
Meanwhile, some Wall Street commentators believe the underlying economy is strong enough to push the long bond yield decisively over 7 per cent in coming months. At the same time, the Dow looks poised to break through 5,700. Both markets may be right, but it is hard to see how.

Benchmark yield curve (%)*
17/5/96 — Month ago ═



*All yields are market convention
Source: Merrill Lynch

Dow Jones Industrial Average



Source FT Extel

LONDON By Philip Coggan

The attention of London is likely to be focused on the US this week, as the open market committee of the Federal Reserve meets tomorrow. Many expect the next move in US rates to be upwards, although an immediate change is seen as unlikely.

The climate for bond and equity markets is gradually changing, however, as investors gradually lose hope for further rate cuts in either the UK or the US.

In fact, the UK market has probably reached the stage where a rate cut from the chancellor would be seen as irresponsible.

Given that Mr Clarke also has precious little scope to cut taxes, it is no surprise that investors are worried about political risk.

Regulatory risk is another issue, with British Gas the latest utility to see its shares clobbered by official action. The after-shocks of the Ofgas report on pricing at Transco, Gas's pipelines subsidiary, should continue to rumble through the utilities sector.

Despite these negative influences, the UK equity market is being kept afloat by takeover rumours, share buy-backs and special dividends.

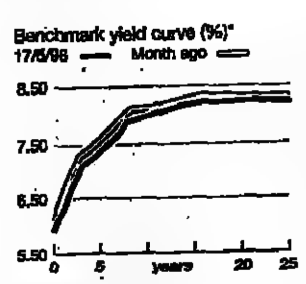
Corporate earnings are still growing, albeit with the odd profits warning – as occurred at BTR last week.

The net effect has been to keep the FT-SE 100 index within a trading range of 3,650 to 3,850, although smaller companies have produced a much better performance.

Gilts have had an unhappy year, although the yield on the 10-year issue managed to dip below 8 per cent on Friday.

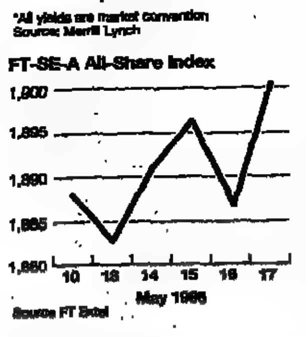
This week's economic statistics, which are likely to show a revival in retail sales and continued strength in broad money supply growth, are not expected to give the market much support.

Benchmark yield curve (%)*
17/5/96 — Month ago ═



*All yields are market convention
Source: Merrill Lynch

FT-SE-A All-Share Index



Source FT Extel

FRANKFURT By Andrew Fisher

The stock market did, after all, come to life again last week, accelerating late on Friday to leave the Ibis DAX index (recording electronic trading in the top stocks) at 2,553 points, not far off its record high.

Wall Street provided the cue, with fading fears of inflation encouraging the market and pulling Frankfurt up in its wake. Bonds, however, were mostly unexciting, though hopes of a more moderate money supply trend in April – M3 figures are due this or next week – improved sentiment at the end of the week.

Some bond traders thought M3 could show an annualised trend of around 10 per cent after moving ahead faster in recent months. This would still be high and the Bundesbank said it was not happy with the trend in its monthly report, though that has not stopped it cutting interest rates.

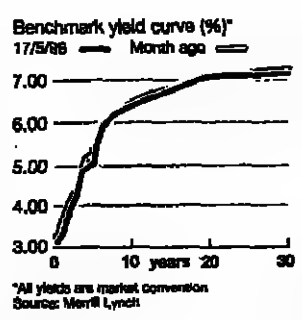
It called the M3 movement "unsatisfactory", citing low monetary capital formation, but said the medium-term trend was according to plan and would approach the 1996 target range of 4–7 per cent.

Once M3 does slow down, hopes of a cut in the securities repurchase rate – held at 3.3 per cent when the discount and Lombard rates were cut recently – will be heightened. Some economists have given up on the idea of a further repo cut, at least for the moment.

Of more concern for financial markets is the accumulation of bad news on the German budget front. A steep decline in tax revenues is now expected this and next year, making government efforts to secure a stringent savings regime even more pressing.

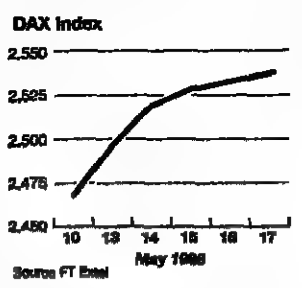
This includes a policy of freezing public sector wages, against which unions have threatened industrial action. So far, this has been scattered and unco-ordinated, but there could be worse to come.

Benchmark yield curve (%)*
17/5/96 — Month ago ═



*All yields are market convention
Source: Merrill Lynch

DAX Index



Source FT Extel

TOKYO By Emiko Terazono

With the Bank of Japan and the Ministry of Finance engaged in a concerted effort to alleviate fears over rising interest rates last week, concern among market participants seems to have abated for now.

Investors and economists are now focused on the tankan, or the quarterly survey of business sentiment, which is due to be released on June 7, for clues on the course of monetary policy.

"What the Bank of Japan is worried about is fears of rising interest rates affecting corporate plans to increase capital expenditure and hire new recruits," said Mr Toshio Koyano, an economist at Dai-Ichi Kangyo Bank.

Since public works investment is expected to fall later in the year due to the MoF's efforts to cut the budget deficit, the authorities hope that an increase in capital spending by private companies will pick up the slack.

Previous tankans have revealed that the recovery in capital spending remains fragile, with the last survey indicating a rise of 0.6 per cent at large companies and a fall of 20 per cent at small and medium-sized enterprises.

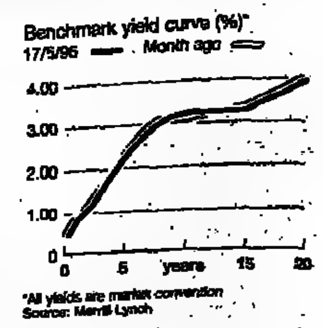
"Spending plans of medium and small firms should still be down 10–15 per cent," says Mr Peter Morgan of James Capel in Tokyo.

Meanwhile, although both bond and stock markets have stabilised, wariness over extra supply weighs on both bond and stock prices.

Bond investors are aware of the large municipal bond issues, while a arbitrage position overhang weighs on stock investors' minds ahead of the June 14 settlement of June futures and option contracts.

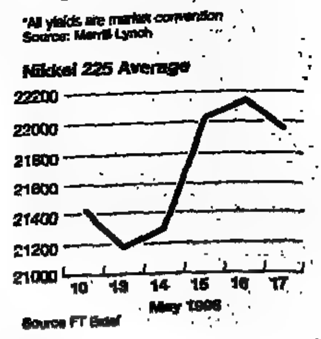
Stock market investors are also unlikely to want to take large positions ahead of the earnings results of leading banks, scheduled for Friday.

Benchmark yield curve (%)*
17/5/96 — Month ago ═



*All yields are market convention
Source: Merrill Lynch

Nikkei 225 Average



Source FT Extel

COMMODITIES By Richard Mooney

Copper price at the crossroads

London Metal Exchange dealers returning from their weekend break will be anxious to see whether last Friday's copper price plunge was a temporary aberration or the shape of things to come.

Analysts had for some time been warning that copper had the most bearish fundamentals of the LME-traded base metals, but fundamentals had been pushed into the background as nearby technical tightness propped up values.

On Friday it appeared that that might be changing, however. An unexpected rise in LME warehouse stocks set the market on a downward course and as sellers were sucked in, successive chart support points gave way.

By the end of after-hours "kerb" trading, the three-month delivery price was at $2,511 a tonne, down $133.50 on the day and $161.50 on the week.

● Events this week include the five-day special meeting of the International Lead and Zinc Study Group that began in Beijing yesterday.

Among other base metals events is the three-day Mining Asia Congress '96, beginning in Singapore today. Speakers include Mr Chris Wardell, the World Bank's principal mining engineer, and Mr Jens Balkau, exploration manager at Australia's Western Mining Corporation.

Today also sees the publication of the International Primary Aluminium Institute's production data for April.

Tomorrow, an eight-day Mining Forum opens in Dakar Senegal and the two-day Metals in the Car Industry conference starts in Frankfurt.

London provides the venue for the Cobalt Development Institute's two-day conference, beginning Wednesday, at which papers will be presented on supply and demand and new uses for the mineral, among others.

On Friday, again in London, Banff Resources holds a presentation on the Ugandan property that it forecasts will eventually supply about 5 per cent of the world's cobalt.

In Vancouver on Friday, shareholders of Diamond Fields Resources will vote on Inco's C$4.3bn (US$3.14bn) bid for the company.

OTHER MARKETS Compiled by Michael Morgan

PARIS

The Ascension day holiday at the end of last week caused trading activity to slow down, and brokers expect the quiet atmosphere to last until the end of the account on Thursday, writes John Pitt.

Nevertheless, there was plenty of corporate news around, with the government looking to get away a number of privatisation issues to take advantage of the market's recent strength.

Last week, for instance, the state said it would cut its stake in Renault below the symbolic 50 per cent level, while there was speculation on Friday that Dassault Aviation would be privatised in the near future.

A large number of analysts meetings are in store over the course of this week, including Chargeurs today, Sidel tomorrow and Docks de France on Wednesday. Docks de France will be closely watched after last week's news that Auchan, an unquoted retailer, had taken a 10 per cent stake.

ZURICH

More detailed information should be available today on the new collective employment agreement forged last week by Swissair and its pilots, which is expected to bring savings to the flag-carrying airline of up to SFr80m a year. The agreement, the basic points of which were agreed in February, has been a long time coming.

A dull share price performance for much of last year reflected the progress of protracted and sometimes heated negotiations.

Matters began to improve after the appointment late last year of Mr Phillippe Bruggisser as chief operating officer, whose arrival raised hopes that Swissair would achieve cost savings without the industrial conflict suffered by other airlines.

Since the start of the year, Swissair's registered shares have risen by around 45 per cent and some enthusiasts believe they have further to go as the airline takes advantage of co-operation agreements with partners such as Delta Air Lines and Sabena, in which it has a 49.5 per cent stake.

HONG KONG

Developments in the Sino-US trade spat over intellectual copyright will be followed closely in the coming week.

The market has, however, steadfastly refused to become excited over last week's US announcement of a preliminary list of $3bn of Chinese imports to be targeted with punitive tariffs and China's tit-for-tat response.

Past experience indicates that the moves are little more than posturing and that a resolution of the dispute can be expected during the 30-day period before the sanctions take effect.

Instead, the market took heart last week from satisfactory inflation data from the US, although by the end of the week, analysts suggested that in the absence of fresh liquidity, shares would find difficulty making further upward progress through strong technical resistance at 10,900 on the Hang Seng index.

BRADY BONDS

The Brady bond market's main focus today will be Ecuador, following the first round of presidential elections over the weekend, writes Conner Middelmann.

Debt prices firmed last week and could rise further if the leading candidate, Mr Jaime Nebot, does well.

Bulgaria will also attract much attention this week, with representatives from the IMF and World Bank in town, working towards banking sector reform.

"If the current talks do not lead to an early IMF letter of intent – though the chances are that they will – further softness should be seen as a buying opportunity," says Mr Jerome Booth, head of emerging market research at ANZ. "There is still upside from current prices."

Among the pre-Bradys, Vietnam has been attracting most attention in recent days in anticipation of an imminent deal with the London Club of commercial bank creditors.

CROSS BORDER M&A DEALS

BIDDER/INVESTOR	TARGET	SECTOR	VALUE	COMMENT
Reading & Bates (US)	Transocean Drilling (Norway)	Oil & Gas exploration	$1.56bn	All-share alternative
BAe (UK)/Matra (France)	Merger	Defence	$1.5bn	Missile merger
Sonat Offshore Drilling (US)	Transocean Drilling (Norway)	Oil & gas exploration	$1.46bn	Board's preferred option
Mobil (US)	Ampolex (Australia)	Oil & gas	$1.43bn	New offer recommended
Williams Holdings (UK)	Sicli Group (France)	Fire protection	$264m	Diversification move
Northern Telecom (Canada)	Mitcom Communications (US)	Data processing equipment	$160m	Friendly take-over
Clyde Petroleum (UK)	Crusader (Australia)	Oil & gas	$137m	Expanding reserves

CURRENCIES By Philip Gawith

Dealers to keep close eye on German economic data

Currency markets have spent much of the past month anticipating higher Japanese interest rates, and buying the yen on the back of this expectation.

Last week, the market realised it had got ahead of itself, revised its expectations and corrected the recent strengthening in the yen.

This week, the potential exists for a similar scenario to emerge in Germany. Since the discount rate was cut to 2½ per cent on April 18, the Bundesbank has left the repo rate unchanged at 3.3 per cent. This has left some observers wondering whether the German rates might not already have bottomed.

Any signs of economic strength will lend support to this view. For this reason, the release in Germany of M3 data and the Ifo business index will be closely watched. Following some stronger real economic data recently, and the stimulus from the Bundesbank's rate cut, the expectation is that business confidence will have rallied.

Although there is little expectation of German rate rising soon, resurgent growth and the prospect of higher rates represents the biggest threat to the markets' current state of Emu-optimism.

Although the risks of a setback appear low, they are very one-sided. Current market prices suggest that there is a 90–100 per cent expectation of Emu proceeding for "core" countries, while this figure is as high as 80 per cent for peripheral countries like Spain and the UK.

Another focus of attention will be tomorrow's meeting of Federal Open Market Committee. There is little expectation of a shift in rates. Mr Dave Munro, chief US economist at High Frequency Economics in New York, says: "Chances for any Fed moves remain low until the main indicators become less subdued, or crash. The Fed... does need a clear case it it is to make any moves – especially to tighten – this year without suffering a Congressional backlash." In terms of data, softer retail sales should be offset by firmer industrial production data and a rise in headline CPI.

FT GUIDE TO WORLD CURRENCIES

The table below gives the latest available rates of exchange (rounded) against four key currencies on Friday, May 17, 1996. In some cases the rate is nominal. Market rates are the average of buying and selling rates except where they are shown to be otherwise. In some cases market rates have been calculated from those of foreign currencies to which they are tied.

		£ STG	US $	D-MARK	YEN (X 100)
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

MARKETS: This Week

INTERNATIONAL FINANCING

Terms set for FFr60bn Cades credit facility

The Caisse d'Amortissement de la Dette Sociale (Cades), the Government agency recently created to manage part of the French accumulated social security deficits, has already secured more than two-thirds of the FFr140bn it needs to raise before a June 28 deadline.

Funding programmes totalling FFr95bn were announced last week alone and the French domestic commercial paper (*Billets de Trésorerie*) and bond markets are likely to provide the remaining FFr45bn.

Issues of Ecu-denominated bonds were initially envisaged as part of the global programme, but now seem unlikely.

Unfavourable swap market conditions would make the final cost – once converted into French francs – substantially higher than that of borrowing in francs.

Exotic structures were also considered, such as floating-rate notes pegged to the new Tec-10 index. But Cades' bonds now seem set to be "plain vanilla bullets" – bonds with fixed coupons and pre-set maturities – in order to meet its objectives in terms of liquidity and efficient cost of funding.

Last Friday, Cades released the details of a FFr60bn revolving credit facility arranged and underwritten by the following six banks: BNP and UBS (joint book-runners), CNCA (facility agent), J.P. Morgan (documentation agent), NatWest and Dresdner Bank.

The deal, now in syndication, will be in two tranches. Tranche A, totalling FFr40bn, matures in five years and will cost Cades a margin of 5 basis points over Pibor – the three-month Paris interbank offered rate.

Tranche B, with an amount of FFr20bn, will mature in one year and its margin was set at 4 basis points over Pibor. The commitment fee will amount to 0.02 per cent of the unused portion of the facility during the first year, and 0.03 per cent per year during years two to five.

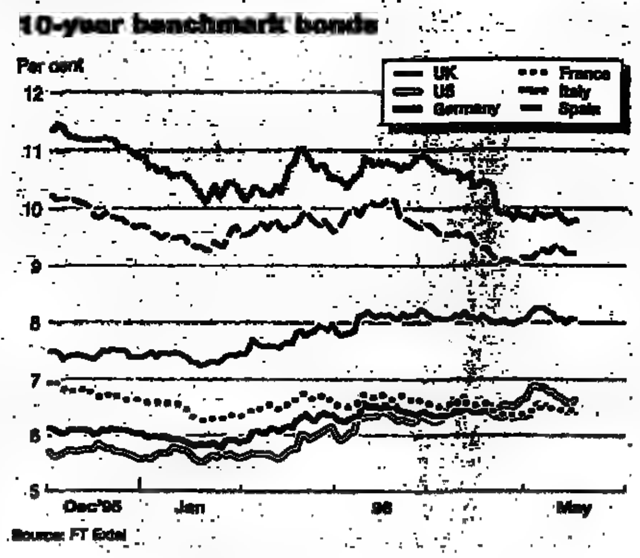
Front-end fees will be 0.03 per cent for senior lead managers – lenders willing to commit FFr2bn or more – and 0.02 per cent for managers – institutions willing to lend between FFr1bn and FFr2bn.

Offers of less than FFr1bn will be examined on a case-by-case basis by Cades. Due to the large size of the loan, the final syndicate is likely to include between 40 and 50 banks and financial institutions.

Last Wednesday Cades said it had asked Lehman Brothers to arrange a programme of euro and US commercial paper, for a total amount equivalent to FFr35bn.

SI

10-year benchmark bonds



Source: FT Extel

INTEREST RATES AT A GLANCE

	USA	Japan	Germany	France	Italy	UK
Discount	5.00	0.50	[illegible]	4.60[1]	9.00	6.00[2]
Overnight	5.19	0.51	3.25	3.70	9.18	5.88
Three month	5.14	0.58	3.20	3.82	8.75	6.00
One year	5.56	0.83	3.26	4.02	8.57	6.28
Five year	6.42	[illegible]	5.06	5.53	9.02	7.51
Ten year	6.66	3.30	6.40	6.46	9.65	7.97

(1) France-Repo rate. (2) UK-Base rate. Source: Reuters.

Politics cloud India's prospects

The next two weeks are likely to prove as nail-biting for investors in India's equity market as they will for the Bharatiya Janata Party, which emerged from the country's elections as the biggest party, formally took office last week, but must still prove a majority in parliament by May 31.

As things stand, the free-market, Hindu nationalist BJP is at least 70 seats short of that majority, and faces the pledged opposition of most other parties in the house. Should it fail to win further support and lose the vote, the BJP's short reign is likely to be replaced by a mixed coalition of regional and secular parties, backed "from the outside" by the defeated Congress party.

Last week the market made it clear which outcome it would prefer: a BJP-led government. Having dipped sharply from levels above 3,840 at the end of April to hover near 3,680 as the indeterminate outcome of India's poll became clear, the Bombay Stock Exchange 30-share index recovered from May 10 to skirt 3,800 at the end of last week, buoyed by the hope that the BJP could somehow scrape through.

For the markets, a government led by the pro-business BJP is an infinitely preferable and clearer outcome than the prospect of a regional-secular coalition, which is fractious, could prove unstable and about which there are doubts over both its ability and will to control India's fragile fiscal position. Indeed, some analysts believe the BJP would be a substantial improvement over the defeated Congress government, which presided over more than four years of revolutionising liberalisation, economic opening and reform.

"The BJP is even more reform-friendly than Congress," says Mr Ramnath Iyer, senior manager of Peregrine in Bombay. "Congress has done very little reforming in the past two years and the party is also a bit weighed down with socialist baggage. The BJP has no socialist baggage at all."

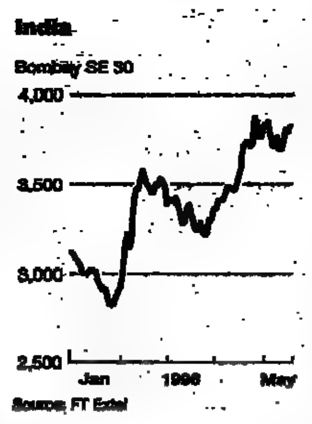
Should the BJP win the parliamentary vote, therefore, most market players expect the Indian market to rally sharply, perhaps by 10 to 15 per cent from present levels. But a BJP defeat could knock the market. Pessimists believe the benchmark BSE could lose up to 600 -700 points. "In the short term, a coalition government would pull it down, then it would drift for perhaps the next three or four months," says Mr Iyer.

The chief reason for such drift would be the likely caution of foreign institutional investors (FIIs), whose purchases in the first quarter of this year have almost entirely driven the market.

FIIs, which generally expected to see Congress survive in power, even if as part of a coalition, and continue along India's reformist path, pumped $1.4bn into Indian stocks between January and late April in an unprecedented bullish surge. During the period, FIIs accounted for fully 40 per cent of all settled deals in Bombay, anticipating the market rally which has followed almost all previous Indian elections.

The buying spree was also helped in January and February by a short spell of softness in the rupee, which made Indian market a particularly cheap buy. Indeed, India at the start of this year was historically cheap, the broad market trading at around 10 times prospective 1996-97 earnings, and well priced by Asian standards.

However, the effect of this January-April surge of investment, which exceeded total foreign investment in Indian



Source: FT Extel

stocks in 1995, and the present political uncertainty has made the Indian market look toppish. "Even ex-politics a correction in the market would not be surprising and I think we'll see some profit-taking," says one Bombay FII.

Foreign investors have ploughed into India's bigger blue chips, and Birla Martin Securities was warning clients even before the poll that stocks like BHEL, Indal, ICICI, BPCL, SBI and Tisco appeared "fully valued". While the broader Indian market is now trading at around 12 times prospective 1996-97 earnings, the BSE-30 stocks are closer to 16 times prospective earnings.

India's corporate and economic fundamentals remain sound. Most analysts are projecting earnings per share growth for 1996-97 in the range of 22 to 25 per cent; wholesale inflation remains low at 4.4 per cent and there has been some easing of the liquidity squeeze which dogged Indian industry for most of last year, though interest rates remain high – at around 19 per cent for corporate borrowers.

Nevertheless, such fundamentals could change fast under an unstable government which allowed the precarious fiscal deficit position to deteriorate.

Analysts also throw an additional, but vital, uncertainty into the mix: India's monsoon rains. Some economists say a poor monsoon can shave up to one percentage point off India's overall economic growth, damaging agricultural output and rural incomes. India has been blessed by eight consecutive good monsoons; a ninth season of good rains might be too much to expect.

The rains are due to hit India's southern coast around June 1, by which time the clouds surrounding the country's political outlook will have either cleared, or deepened.

Meanwhile, Bombay stocks are likely to roller-coaster with every snippet of political news between now and the parliamentary vote.

"In the last 10 days nothing has happened in the market apart from politics," says one Bombay analyst. "And I don't see anything else happening until after May 31."

ING BARING SECURITIES EMERGING MARKETS INDICES

Index	17/5/96	Week on week movement Actual	Percent	Month on month movement Actual	Percent	Year to date movement Actual	Percent
World (386)	162.55	+0.14	+0.09	+0.32	+0.20	14.87	+10.16
Latin America							
Argentina (22)	108.21	+5.77	+5.80	+9.01	+9.36	+12.44	+13.40
Brazil (23)	221.17	+2.20	+1.00	+13.98	+6.75	+35.08	+18.85
Chile (16)	188.69	-5.47	-2.82	-7.10	-3.63	-6.97	-3.58
Colombia (14)	171.55	-8.71	-3.76	+11.44	+7.15	+7.23	+4.46
Mexico (22)	85.66	+1.56	+1.85	-0.55	-0.63	+12.10	+16.44
Peru (14)	1,031.72	+19.20	+1.90	-0.39	-0.04	-37.23	-3.48
Latin America (112)	138.16	+1.82	+1.35	+6.60	+4.28	+16.01	+12.19
Europe							
Greece (18)	107.71	+0.79	+0.74	-2.95	-2.66	+9.80	+10.00
Portugal (20)	125.66	+1.32	+1.06	-1.29	-1.02	+9.22	+7.92
Turkey (28)	110.60	-3.14	-2.76	-6.39	-5.46	+27.80	+35.58
South Africa (32)	145.75	+0.23	+0.16	-5.98	-3.94	-7.05	-4.60
Europe (98)	122.36	-0.01	-0.01	-3.87	-3.07	+0.72	+0.59
Asia							
China (24)	43.07	-0.13	-0.31	-0.66	-1.52	+2.75	+6.82
Indonesia (32)	153.23	+0.80	+0.53	-3.21	-2.06	+14.59	+10.52
Korea (23)	135.01	-4.16	-2.99	-4.11	-2.95	-1.89	-1.38
Malaysia (24)	260.74	-0.81	-0.31	-2.38	-1.11	+33.37	+14.68
Pakistan (14)	89.50	-6.45	-6.70	+12.76	+16.60	+16.21	+22.02
Philippines (14)	221.06	-0.22	-0.07	+16.82	+8.46	+61.91	+23.69
Thailand (25)	254.31	-5.36	-2.52	-10.67	-4.10	+8.43	+4.89
Taiwan (31)	165.57	-0.70	-0.42	-4.35	-2.56	+34.95	+26.71
Asia (187)	220.53	-2.14	-0.92	-3.97	-1.70	+26.49	+13.04

All indices in $ terms, January 7th 1988=100. Source: ING Baring Securities.

Peru roadshow heads for the US

Bankers have begun in earnest their efforts to sell shares in Telefónica del Peru, in what will be one of Latin America's biggest international equity offerings this year.

Last week, Telefónica registered its intention to sell American depositary shares, representing some 50m underlying shares, with the Securities and Exchange Commission.

This week, global co-ordinators, JP Morgan and Merrill Lynch, are accompanying a government team, including Mr Alberto Pandolfi, the prime minister, and Mr Jorge Camet, the finance minister, on a tour of North America, where they are promoting the idea of investing in Peru.

The so-called "country roadshow", which began in London on Friday, is similar to those launched by the Argentine and Mexican governments before the privatisation of Telmex, the Mexican telecommunications company, and Yacimientos Petrolíferos Fiscales (YPF), the Argentina oil company.

Its theme, designed to reassure foreign investors, is the sustainability of Peru's economic reforms and the irreversibility of the privatisation process, through which over $4.5bn has already been raised.

By early next month, bankers are expected to decide how much of the government's 29.5 per cent stake in Telefónica, worth some $1.35bn at current market prices, will be offered to international and domestic investors. They are understood to be hopeful that the entire holding can be sold.

Banco de Crédito, the country's biggest bank, is preparing to launch later this month the domestic offer and will aim to raise more than $200m from retail and institutional investors. In last week's SEC statement the company merely registered its intention to issue some $100m in ADSs, but that amount will be increased.

A fully fledged book-building campaign is expected to take place during June, with final pricing of the offer likely by the end of June or early in July.

Salomon Brothers, CSFB and Smith Barney are co-managing the issue in the US, while elsewhere SBC Warburg is senior co-lead manager in a lead-management group also consisting of Dresdner Kleinwort Benson, UBS, Daiwa and Banco Bilbao Vizcaya.

Banks are wrestling with the fact that Telefónica is already a popular share for foreign investors, in a relatively narrow market. Analysts in Lima say foreign investors hold about $1.8bn of portfolio investments. But of this total, a substantial proportion, possibly as much as $820m, is concentrated in Telefonica, the most liquid share in Lima.

There seems little doubt that specialist emerging market and Latin American funds will be keen to buy the issue, but they will not provide enough demand to take up the entire stake.

In addition, bankers are, therefore, aiming to persuade a broader base of investors, including global telecommunications funds, to buy Telefónica shares. In particular, executives responsible for asset allocation within funds are being targeted and invited to increase the weighting of Peruvian assets within their portfolios.

A wide range of investors was present at a London roadshow, where Peru formally announced an agreement for the largest ever single investment in the country. A consortium comprising Shell and Mobil is to invest between $2.7bn and $2.8bn to develop the natural gas and hydrocarbons deposits of Camisea, 300 miles south-east of Lima.

RL

NEW INTERNATIONAL BOND ISSUES

Borrower	Amount m.	Maturity	Coupon %	Price	Yield %	Launch spread bp	Book-runner
US DOLLARS							
Seiori Electric Co(k)(◊)	[illegible]	May 2000	3.00	100.00	-	-	Daiwa Europe
First USA, 96-2, Cls A(b)‡	600	Jul 2003	(b1)	100.00	-	-	Morgan Stanley & Co
Rabobank Nederland(c)	100	Jun 2001	(c1)	100.05R	6.348	+22(5⅞%-98)	Morgan Stanley Intl
Korea Development Bank(s)	750	May 2006	7.25§	99.243R	7.358	+74(6⅞%-05)	CSFB/Lehman Brothers
Wachovia Bk of Nth Carolina‡	500	Jan 2001	(e)	99.826R	-	-	Merrill Lynch Intl
National Australia Bank	300	Jun 1999	6.25	99.965R	6.258	+14(5⅞%-99)	M Stanley/Nikko
Morgan Stanley Group(f)‡	250	Jun 2001	(f1)	99.87R	-	-	Morgan Stanley Intl
Total Access Comm(g,s)§	200	May 2006	2.00§	100.00	-	-	Lehman Brothers
Nationsbank Corp(h)‡	50	Feb 2008	(h1)	100.035	-	-	IBJ International
Toyota Motor Credit Corp	750	May 2001	6.50	99.562R	6.606	+15(6¼%-01)	CSFB/Merrill Lynch
Banca di Roma(i)‡	500	Jun 2003	(i1)	99.682R	-	-	HSBC/SBC Warburg
Rabobank Nederland(s)	200	Dec [illegible]	6.25	99.90R	8.297	+3(5⅞%-99)	Daiwa Europe
Lojas Americanas(k)	150	Jan 2004	11.00§	98.515R	11.60	+450(5⅞%-99)	JP Morgan Securities
Metalurgica Gerdau(s)	130	May 2004	11⅛§	99.90R	11.72	+465(6¼%-01)	Chase Investment Bank
Hidroelectrica Piedra	100	May 1999	10⅞§	100.00R	10.88	+450(5⅞%-99)	Citibank/Merrill
D-MARKS							
Bayerische Vereinsbank(s)	1bn	May 2001	5.25	99.417R	5.386	+32(5¼%-00)	ByVB/DMG/DG/Goldman
Brazil Repackaged Bonds(d,s)	150	Apr 2006	11.00	95.00R	12.13	+610(6¼%-05)	Morgan Stanley Bank
Deutsche Ausgleichsbank	300	May 2002	5.75	99.925R	5.765	+14(6%-02)	BayerLB/Lehman Bros
European Investment Bank(s)	750	Oct 2003	6.00	99.58R	6.079	+7(6%-03)	Lehman/M Stanley
NLFA	250	Jan 2001	5.25	98.44R	5.361	+26(5¼%-00)	Bayerische Landesbank
YEN							
Republic of Turkey★	30bn	May 2002	6.00	100.00	6.000	-	Yamaichi Intl(Europe)
Federal Natl Mtg Assoc(l)	100bn	Dec 1999	2.00§	99.923R	2.022	+7(5.1%-99)	Merrill Lynch/Nomura
Abbey Natl Tsy Services(s)★	30bn	Dec 1999	2.10	100.0375	-	-	Daiwa Europe
SWISS FRANCS							
NTT	250	Jan 2002	4.00	102.90	3.457	-	UBS
STERLING							
DSL Bank(s)	150	Dec 2000	7.50	99.54R	7.642	+10(8%-00)	ABN Amro/BZW
LB Rheinland-Pfalz(s)	100	Dec 2001	7.75	99.75R	7.823	+10(7%-01)	HSBC Markets
Merrill Lynch & Co‡	100	Jun 2001	(l)	99.817R	-	-	Merrill Lynch Intl
Deutsche Bank Finance(s)	150	Dec 1999	7.25	99.786R	7.34	+7(6%-99)	Deutsche Morgan G'fell
National Grid Company(s)	150	Dec 1999	7.375	99.784R	7.467	+20(6%-99)	UBS
GUILDERS							
Dresdner Bank(s)	100	Sep 2001	5.25	99.26R	5.422	+5(6¾%-01)	ING Barings
LUXEMBOURG FRANCS							
Cera Bank	2bn	Jan 2001	5.625	102.25	5.104	-	BCEE/Cera Bank
ITALIAN LIRE							
Bayerische Vereinsbank	300bn	Jun 1999	8.50	101.245	8.017	-	BNL/HSBC/San Paolo
Walt Disney Company	300bn	Jun 2000	8.625	101.302	8.230	-	Deutsche/JP Morgan
Crédit Local de France(s)	200bn	Jan 2001	9.00	101.905	8.518	-	Credito Italiano
AUSTRALIAN DOLLARS							
CBA	100	Jul 1999	8.25	101.05	7.844	-	CBA
NatWest Markets Australia	100	Jun 1999	8.25	100.85	7.917	-	NatWest Capital Mkts
Republic of Portugal(t)★	250	Jan 2000	8.00§	99.67	-	-	Yamaichi Intl(Europe)
PESETAS							
European Investment Bank	15bn	Jan 2021	8.50	97.69	8.730	-	BCH/BSN
BNG	10bn	Jan 2001	8.125	100.50	8.000	-	JP Morgan
SOUTH AFRICAN RAND							
Commerzbank	125	Jun 1999	15.50	101.07	15.03	-	Hambros Bank
CZECH KORUNA							
World Bank	1.5bn	May 1997	11.00	100.00R	11.00	-	ING Barings

Final terms, non-callable unless stated. Yield spread (over relevant government bond) at launch supplied by lead manager. §Convertible. ‡Floating-rate note. ◊With equity warrants. ★Unlisted. §Semi-annual coupon and yield. R: fixed re-offer price. a) Denom: $10,000 +2 wts. Ex price: Y4,177.50. FX: 106.40Y/$. b) First USA Credit Card Master Trust. Legal maturity: 10/7/05. Plus accrued. b1) 1-mth Libor +18bp. c) Callable on 12/6/98 at par. c1) 6⅞% to 12/6/98 and 8% thereafter. d) DM100m launched 29/4/96 was increased to DM250m. Amortises in seven equal annual instalments from 15/4/00. Average life: 15/4/03. Underlying: Brazil EI FRNs due 14/4/06. e) 3-mth Libor flat. f) Callable from Dec 1997 at par. f1) 3-mth Libor +25bp. g) Conversion price: $10.50. Callable from 15/5/99 with 2 yrs of 140% protection. Puttable on 15/5/01 at 133.85%. Greenshoe: $50m. h) Fungible with $160m. Plus 8 days accrued. h1) 3-mth Libor +20bp. i) Over interpolated yield. j) Callable from June 98 at par. Puttable in June 01 at par. j1) 3-mth Libor +6¼bp. k) Puttable on 4/6/99 at on 98.84% and 4/6/01 at 97.77%. l) Long 1st coupon. m) Fl300m launched 11/4/96 was increased to Fl400m. n) L200bn launched 7/5/96 was increased by L100bn at 101.905% and L100bn at 101⅞% to L400bn. o) Puttable on 24/5/99 at 98.55% and on 24/5/01 at 99.80%. Callable on 24/5/01 at 100½%. p) Oeffentliche Pfandbrief. s) Short 1st coupon. Note: Yields are calculated on ISMA basis.

WORLD STOCK MARKETS

EUROPE

AUSTRIA (May 17 / Sch)

BELGIUM/LUXEMBOURG (May 17 / Frs.)

CZECH REP (May 17 / Koruna)

DENMARK (May 17 / Kr)

FINLAND (May 17 / Mks)

FRANCE (May 17 / Frs.)

GERMANY (May 17 / Dm.)

GREECE (May 17 / Drachma)

ITALY (May 17 / Lire)

NETHERLANDS (May 17 / Fls.)

NORWAY (May 17 / Kroner)

POLAND (May 17 / Zloty)

PORTUGAL (May 17 / Escudo)

SPAIN (May 17 / Pta.)

SWEDEN (May 17 / Kronor)

SWITZERLAND (May 17 / Frs.)

TURKEY (May 17 / Tk Lira)

PACIFIC

JAPAN (May 17 / Yen)

AUSTRALIA (May 17 / Aus$)

HONG KONG (May 17 / H.K.$)

INDONESIA (May 17 / Rupiah)

MALAYSIA (May 17 / MYR)

NEW ZEALAND (May 17 / NZ $)

SINGAPORE (May 17 / S$)

SOUTH KOREA (May 17 / Won)

TAIWAN (May 17 / TW $)

THAILAND (May 17 / Baht)

AFRICA

SOUTH AFRICA (May 17 / Rand)

NORTH AMERICA

CANADA

TORONTO (May 17 / Can $)

4 pm close

MONTREAL (May 17 / Can $)

4 pm close

INDICES

	May 17	May 16	May 15	1996 High		1996 Low	
Argentina							
General(29/12/77)	16684.58	16612.46	16690.82	18191.89	31/1	[illegible]	13/3
Australia							
All Ordinaries(1/1/80)	2251.6	2249.5	[illegible]	[illegible]	29/4	[illegible]	11/3
All Mining(1/1/80)	1079.7	1077.5	1078.9	1118.40	8/5	1004.70	16/1
Austria							
Credit Aktien(30/12/84)	380.65	(c)	381.40	387.24	25/4	352.78	2/1
Traded Index(2/1/91)	1109.86	(c)	1112.71	1131.21	29/4	975.27	2/1
Belgium							
BEL20(1/1/91)	1728.44	(c)	1723.33	1769.71	7/3	1574.80	2/1
Brazil							
Bovespa(29/12/83)	55604.0	54758.0	54425.0	64281.00	14/5	43901.09	2/1
Canada							
Metals Minls(1975)	5466.61	5480.76	5529.91	5834.68	8/5	[illegible]	10/1
Composite(1975)	5220.50	5208.30	5213.00	5228.80	14/5	4738.70	15/1
Portfolio§§(4/1/83)	2545.40	2533.67	2543.56	2545.09	14/5	2327.39	12/1
Chile							
IGPA Gen(31/12/80)	5543.79	5557.11	5580.84	6004.33	8/1	5215.28	8/4
Denmark							
CopenhagenSE(3/1/83)	400.27	(c)	400.04	409.83	8/5	388.40	2/1
Finland							
HEX General(28/12/90)	1997.56	(c)	1990.89	1997.56	17/5	1691.67	10/1
France							
SBF 250(31/12/90)	1451.06	(c)	1444.20	1453.86	30/4	1250.16	2/1
CAC 40(31/12/87)	2135.31	(c)	2124.64	2148.79	30/4	1887.85	11/1
Germany							
FAZ Aktien(31/12/58)	891.89	(c)	891.28	902.33	23/4	818.58	2/1
Commerzbank(1/12/53)	2589.80	(c)	2569.00	2601.90	23/4	2370.20	2/1
DAX‡(30/12/87)	2537.39	(c)	2529.75	2550.18	23/4	2284.86	2/1
Greece							
Athens SE(31/12/80)	930.88	914.62	911.97	1017.89	4/3	901.93	29/4
Hong Kong							
Hang Seng(31/7/64)	10816.85	10833.41	10853.63	11594.99	16/2	10204.87	2/1
India							
BSE Sens.(1979)	3795.96	3823.11	3798.29	3966.87	24/4	2826.06	25/1
Indonesia							
Jakarta Comp.(10/8/82)	621.39	(c)	619.84	630.21	24/4	512.48	2/1
Ireland							
ISEQ Overall(4/1/88)	2525.00	2311.54†	2574.0	[illegible]	1/5	2234.61	2/1
Italy							
Banca Comm Ital(1972)	667.30	662.14	665.42	667.30	17/5	572.21	23/3
MIB General(2/1/95)	1131.0	1122.0	1128.0	1131.00	14/5	970.00	27/3
Japan							
Nikkei 225(16/5/49)	21916.60	22147.21	22055.87	22282.85	24/4	[illegible]	13/3
Nikkei 300(1/10/82)	311.18	313.71	312.77	318.06	25/4	284.49	11/3

	May 17	May 16	May 15	1996 High		1996 Low	
Japan							
Topix(4/1/68)	1684.33	1697.56	1690.16	1718.89	25/4	1524.32	13/3
2nd Section(4/1/68)	2236.82	2236.26	2220.37	2243.29	2/5	1882.78	14/3
Malaysia							
KLSE Comp(4/4/86)	1155.55	1149.98	1154.09	1188.84	20/4	[illegible]	2/1
Mexico							
IPC(Nov 1978)	(u)	3226.21	3232.14	3304.48	19/4	[illegible]	8/3
Netherland							
CBS TtlRtnGen(End 83)	629.5	(c)	633.0	633.00	15/5	539.59	2/1
CBS All ShrEnd 83	373.8	(c)	376.5	376.50	15/5	328.29	2/1
New Zealand							
Cap. 40(1/7/86)	2068.03	2071.01	2080.12	[illegible]	4/1	2044.71	24/1
Norway							
Oslo SE(Ind(2/1/83)	(c)	[illegible]	1409.80	1444.22	29/4	[illegible]	30/1
Philippines							
Manila Comp(2/1/85)	3116.69	3112.42	3123.97	[illegible]	9/5	2676.97	2/1
Portugal							
BVL 30(4/1/93)	1848.18	1839.48	1829.48	1891.49	7/5	[illegible]	2/1
Singapore							
SES All-S'pore(2/4/75)	575.40	578.28	575.12	608.37	5/2	[illegible]	2/1
South Africa							
JSE Gold(28/9/78)	2029.2♥	2027.7	[illegible]	[illegible]	17/5	1340.40	2/1
JSE Ind.(28/9/78)	7821.7♥	7879.2	7952.8	8039.30	25/1	[illegible]	9/5
South Korea							
KoreaCompEx''(4/1/80)	937.51	940.96†	958.17	[illegible]	7/5	[illegible]	13/3
Spain							
Madrid SE(30/12/85)	360.37	357.81	[illegible]	361.79	29/4	323.35	11/1
Sweden							
AffarsvarldenGen(1/2/37)	1983.1	(c)	1973.1	1983.10	17/5	[illegible]	22/1
Switzerland							
Swiss Bk Ind(31/12/58)	1738.27	(c)	1727.23	1778.54	26/4	[illegible]	17/1
SBC General(1/4/87)	1229.92	(c)	1225.18	[illegible]	26/4	1114.47	26/1
Taiwan							
WeightedPr''(30/6/66)	6022.72	6096.63	6065.41	6182.70	29/4	[illegible]	6/2
Thailand							
Bangkok SET(30/4/75)	1300.29	1302.34	1326.60	1415.94	6/2	[illegible]	13/3
Turkey							
Istanbul Cmp (Jan 1986)	65745.1	66494.9	64552.1	[illegible]	8/4	[illegible]	2/1
WORLD							
MS Capital Intl(1/1/70)	778.0*	775.5	775.5	778.40	29/4	[illegible]	15/1
CROSS-BORDER							
Eurotrack 100(26/10/90)	1680.34	1682.03	1682.80	1692.57	29/4	[illegible]	11/1
Euro Top-100(26/6/90)	1450.40	1443.87	1447.33	1458.28	25/4	1333.01	11/1
HSBC JC Drgn(31/12/88)	(u)	375.29	376.38	383.16	18/4	344.19	2/1
ING Brngs Emrg(7/1/92)	162.53	162.71	163.38	164.14	14/5	147.35	2/1

INDEX FUTURES

	Open	Sett Price	Change	High	Low	Est. vol.	Open Int.
CAC-40 (200 x Index)							
May	2108.0	2131.0	+15.0	2135.0	2105.0	9,707	32,525
Jun	2087.5	2110.0	+14.5	2113.0	2085.0	463	31,240
DAX							
Jun	2527.0	2554.5	+18.0	2558.5	2527.0	17,081	190,535
Sep	2548.5	2573.5	+19.0	2576.5	2548.0	198	6,497
OMX							
Apr	–	1518.00	–	–	–	–	–
May	–	1510.50	–	–	–	–	–
SOFFEX							
May	3556.0	3564.9	+1.8	3565.0	3558.0	3,004	11,544
Jul	3544.0	3573.0	+40.0	3573.0	3542.0	37	2,889

'' Sat May 11: Taiwan Weighted Price 6145.77; Korea Comp Ex 970.64. Base values of all indices are 100 except Australia All Ordinary and Mining – 500; Austria Traded, BEL20, HEX Gen., MIB Gen., BVL 30, SBF250, CAC40, Euro Top-100, ISEQ Overall, Toronto Comp/Metals & Minerals and DAX – all 1,000; JSE Gold – 255.7, JSE 20 Industrials – 264.3; NYSE All Common – 50 and Standard and Poor's – 10. §§ Montreal. ♦ Toronto. (c) Closed. (u) Unavailable. ‡ IBIS/DAX after-hours index: May 17 – 2552.25 +17.88.

US INDICES

Dow Jones	May 17	May 16	May 15	1996 High	1996 Low	Since compilation High	Since compilation Low
Industrials	5687.50	5635.05	5625.44	[illegible] (3/4)	5032.94 (10/1)	[illegible] (3/4/96)	41.22 (8/7/32)
Home Bonds	101.56	101.49	101.57	[illegible] (14/2)	101.19 (8/5)	[illegible] (10/10/93)	54.99 (1/10/81)
Transport	2208.64	2240.44	2255.65	2229.22 (14/5)	1802.71 (10/1)	2229.22 (14/5/96)	12.32 (8/7/32)
Utilities	212.41	212.49	214.22	[illegible] (12/2)	205.42 (7/5)	[illegible] (21/8/93)	10.50 (8/4/32)

DJ Ind. Day's high 5729.81 (5677.53) Low 5631.35 (5577.42) (Theoretical)
Day's high 5690.59 (5663.68) Low 5626.70 (5607.34) (Actual)

Standard and Poors	May 17	May 16	May 15	1996 High	1996 Low	Since compilation High	Since compilation Low
Composite‡	668.91	664.85	665.42	[illegible] (14/5)	[illegible] (10/1)	[illegible] (14/5/96)	4.40 (1/6/32)
Industrials@	798.18	791.27	791.46	[illegible] (14/5)	[illegible] (15/1)	[illegible] (14/5/96)	3.62 (21/6/32)
Financial	[illegible]	[illegible]	66.21	[illegible] (5/3)	[illegible] (10/1)	[illegible] (5/3/96)	[illegible] (1/10/74)
NYSE Comp	358.78	356.41	355.64	[illegible] (14/5)	321.41 (10/1)	[illegible] (14/5/96)	4.46 (25/4/42)
Amex Mkt Val	665.21	662.73	[illegible]	[illegible] (14/5)	[illegible] (10/1)	[illegible] (14/5/96)	29.31 (9/12/72)
NASDAQ Comp	1241.88	1239.31	1233.56	1234.49 (14/5)	[illegible] (10/1)	1234.49 (14/5/96)	54.87 (31/10/72)

RATIOS

	May 10	May 3	Apr 26	Year ago
Dow Jones Ind. Div. Yield	2.20	2.21	2.17	2.47
	May 15	May 8	May 1	Year ago
S & P Ind. Div. yield	1.86	1.82	1.88	2.21
S & P Ind. P/E ratio	21.98	21.26	21.60	18.77

NEW YORK ACTIVE STOCKS

Friday	Stocks Traded	Close price	Change on day
Coca Cola	7,424,300	45⅝	+⅝
Tele Bras	6,601,700	59	+1⅝
Wal-Mart	6,023,100	24⅝	+⅛
Bay Networks	5,377,000	33½	-⅛
Hewlett-Pck	5,139,100	108⅝	+4⅝
Ford Motor	4,914,000	37⅝	+⅜
Philip Morris	4,809,900	95⅞	+4⅝
AT & T	4,758,500	61⅝	-1⅛
Royal Dutch	4,621,200	149⅞	+1⅞
Tele Mex	4,064,800	34	⅛

TRADING ACTIVITY

Volume (million)	May 17	May 16	May 15
New York SE	432.152	389.953	410.571
Amex	23.133	22.324	25.807
NASDAQ	(u)	643.287	705.455
NYSE			
Issues Traded	3,129	3,137	3,130
Rises	1,454	1,408	1,286
Falls	843	1,291	1,141
Unchanged	832	838	703
New Highs	184	129	193
New Lows	8	11	7

	Open	Sett price	Change	High	Low	Est. vol.	Open Int.
S&P 500							
Jun	668.75	671.50	+4.45	672.70	668.75	72,880	184,383
Sep	674.45	677.10	+4.45	678.60	674.45	1,305	15,288
Nikkei 225							
Jun	22100.0	21980.0	-220.0	22180.0	21910.0	19,386	277,977
Sep	22170.0	22060.0	-220.0	22250.0	22000.0	1,010	20,440

Open interest figures for previous day.

† Correction. * Calculated at 15.00 GMT. @ Excluding bonds. ‡ Industrial, plus Utilities, Financial and Transportation. ♦ The DJ Ind. index theoretical day's highs and lows are the averages of the highest and lowest prices reached during the day by each stock; whereas the actual day's highs and lows (supplied by Telekurs) represent the highest and lowest values that the index has reached during the day. (The figures in brackets are previous day's). ♥ Subject to official recalculation.

Prices supplied by Telekurs

NOTES – Prices on this page are as quoted on the individual exchanges and are mostly last traded prices. Highs/Lows are based on data from Jan 1 1995. x Dealings suspended. xd Ex dividend. xc Ex scrip issue. xr Ex rights. xa Ex all. † Priced in US $.

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TOKYO - MOST ACTIVE STOCKS: Friday, May 17, 1996

	Stocks Traded	Closing Prices	Change on day
Nagasakiya	12.3m	979	+56
Dai-Ichi Katei	7.1m	895	+98
Toyo Wharf & Whse	5.2m	658	+26
Taisan	5.2m	906	+58
Nissho Iwai	5.0m	623	+2
Kobe Steel	4.6m	314	-10
Kinki Sharyo	4.3m	873	+37
Nippon Stl Corp	4.3m	372	-5
Nihon Nosan Kgyo	4.2m	521	+25
Copal	4.0m	1170	+20

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AFRICAN BANKING AND FINANCE

Long memories, faint hearts

Africa's economic reforms are slowly bearing fruit, but past failures have not been forgotten, and competition for foreign investment is getting tougher, says Tony Hawkins

"Investors," said a former Italian budget minister and president, Luigi Einaudi, "have the memories of elephants, the hearts of lambs and the legs of hares."

His warning ought to be on the walls of the offices of African presidents, finance ministers and central bank governors – a constant reminder of the ultimate paramountcy of market fears and perceptions.

Economic reforms across the continent are starting to bear fruit, a dozen stock exchanges are now operating, and the end of apartheid has seen a surge of international business interest in southern Africa, with benefits that extend well beyond the region.

But the competition for investment is tougher and Africa has to respond to a rapidly changing international business environment.

Twenty years ago, when the continent's leaders demanded a new world economic order, few if any, visualized the one that has since evolved.

Their hopes of a more equitable global economic system managed by increasingly powerful international agencies, dominated by third world governments have been shattered by the phenomenon of globalisation.

As more and more key decisions affecting investment, production and employment are taken by global companies, the capacity of national governments to mould their economy has diminished, limiting their role increasingly to that of referee rather than player.

Small wonder then that the World Bank's annual Global Economic Prospects report, demonstrating how "fast-lane" economies are those that have climbed aboard the globalisation bandwagon, was given a decidedly lukewarm welcome in some African capitals.

UN Secretary-General, Boutros Boutros-Ghali, warns that globalisation "without control" will create frustration and insecurity and calls for measures to "protect" developing economies.

Tanzania's new president, Benjamin Mkapa, advocates preferential trade concessions for his country, along with debt relief and high levels of aid for the least developed economies.

Given Africa's track record, such appeals are likely to fall on deaf ears.

Whatever the politicians say, the numbers tell the story. Rapid globalisers – countries that increase their export market share, especially of manufactured goods, those that attract substantial inflows of private sector direct and portfolio investment, and those able to negotiate non-equity links, licensing agreements and alliances with foreign multinationals – grow substantially faster than inward-looking economies.

In the 12 years to 1993, sub-Saharan exports grew 2.4 per cent annually – less than half the 5.4 per cent growth rate of world trade, implying that the region was losing market share, while imports declined 1.5 per cent a year.

Given the linkages between imports, investment and growth, falling imports reflected a shrinking economy and capital base.

For the region's GDP to grow at 3.8 per cent annually over the next decade as projected by the World Bank, investment must increase by at least a half over current levels.

With aid flows down to 0.29 per cent of donor's GDP in 1994 from 0.35 per cent 10 years earlier – the lowest level in more than 20 years – and with further aid reductions in the pipeline, African countries will have to pay increased attention to smartening up their investment images and improving their investment climate.

Since 1990, the flow of net resources to all developing countries has more than doubled to $231bn from $102bn. Over the five years, the share of official development finance in this total halved to 28 per cent from 57 per cent, while the share of private foreign direct investment increased from a quarter to more than a half.

Net private capital flows to developing countries ($bn)

Region	1990	1991	1992	1993	1994	1995[1]
All developing countries	44.0	61.6	100.3	154.2	158.8	167.1
Sub-Saharan Africa	0.2	1.0	0.3	-0.8	4.7	5.0
East Asia & the Pacific	20.4	26.2	44.7	62.9	77.3	98.1
South Asia	2.4	2.1	2.8	4.6	7.4	8.0
Europe & central Asia	8.2	7.1	21.6	25.0	15.6	17.3
Latin America & the Caribbean	12.2	22.7	30.4	58.8	49.7	33.9
Middle East & North Africa	0.5	2.4	0.4	3.8	4.1	6.8
Total net long-term flows	101.9	127.1	158.3	207.2	207.4	231.2
% private flows	43	49	65	74	77	72

[1] Preliminary. Source: World Bank, Debtor Reporting System & staff estimates

Sub-Saharan Africa gross domestic product*

Country	% share
South Africa	31.9
Nigeria	22.8
Zaire	5.1
Ghana	4.6
Kenya	3.7
Cameroon	2.7
Ethiopia	2.5
Côte d'Ivoire	2.4
Tanzania	2.1
Zimbabwe	1.8
Uganda	1.8
Senegal	1.5
Subtotal	85.2
Others	14.8
Total	100.0

* Estimate for 1994. Source: IMF

Nothing better illustrates sub-Saharan Africa's lacklustre economic performance – GDP growth of 0.7 per cent annually between 1990 and 1994 – than its tiny share of net private capital flows.

Last year, it attracted $4.7bn – less than Argentina, Brazil or Thailand and only slightly more than India's $4.4bn.

In a world in which foreign investment and trade are expanding far more rapidly than output, sub-Saharan Africa has lost market share in exports while increasing its dependence on official financing, otherwise known as aid.

In 1994, foreign capital inflows of $20bn were estimated at more than 5 per cent of GDP – more than for developing economies as a whole (4 per cent) and virtually the same as the percentage inflow to Asian economies.

Aid accounted for three-quarters of this total, while private flows (excluding South Africa) were dominated by three countries, which took two-thirds of the total – Nigeria with $1.9bn, (40 per cent) Ghana's $838m (18 per cent) and Angola's $409m (8.5 per cent).

Even this includes at least one once-off figure – the $557m portfolio equity inflow to Ghana as a result of the privatisation of Ashanti Goldfields.

Conscious of the need to restructure their economies in line with the new order, but invariably reluctant to do so for fear of placing their political destinies in the hands of forces beyond their control, African presidents are edging their way – erratically and usually too slowly – towards more liberalised, deregulated, open economies.

Almost everywhere one-stop investment promotion centres have opened; even the smallest, most backward, economies have plans to launch their own stock markets.

Whole banking systems have been restructured, exchange controls liberalised and market-determined exchange rates are the norm in a growing number of countries along with positive real interest rates.

Whatever their earlier reservations about the likely repercussions of structural adjustment programmes, no African government has turned back the clock, though both President Daniel arap Moi in Kenya and General Abacha's military regime in Nigeria toyed with the idea of going back to the status quo.

Certainly, it's almost impossible to find African bankers and businessmen prepared to even contemplate going back to the old regime of fixed exchange rates, state-determined interest rates, and government intervention in just about every facet of business decision-making.

The downside is the relative slowness – some would say absence – of the supply response.

Part of the explanation is the question mark hanging over the credibility of reform in many countries. In part, it is the state of the infrastructure and the destruction of institutional capacity over the past 30 years.

Whatever the reasons, the gap between Africa and the rest of the developing world continues to widen.

The modest growth in income per head now forecast will fail to generate anything like the levels of domestic savings needed to fuel economic growth of 4 per cent to 5 per cent annually.

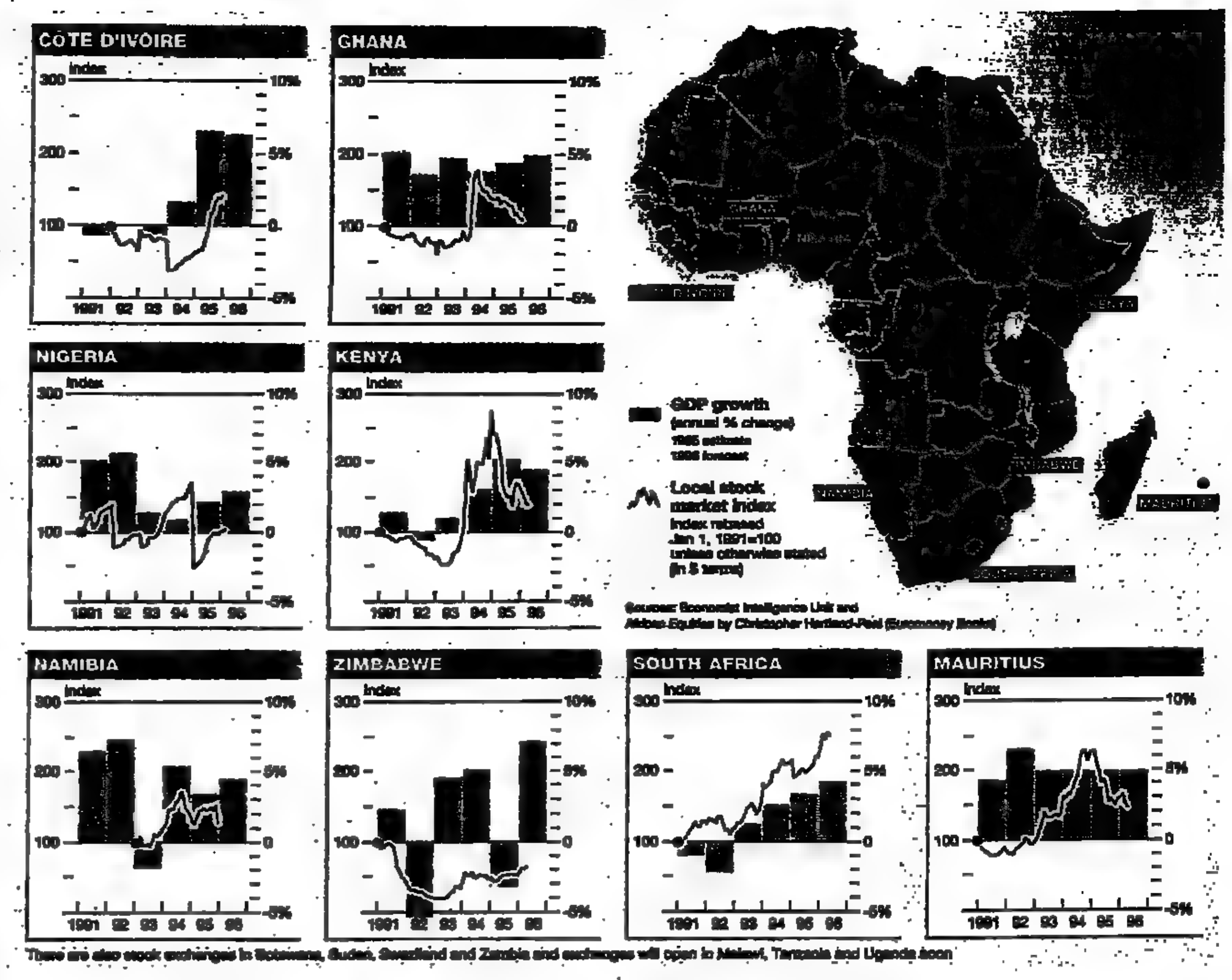
Scope for public sector savings is minimal, though, as budget deficits are trimmed and parastatals privatised, so government crowding out of the private sector will diminish.

There will, however, still be a huge gap to be filled by foreign capital. Aid is not going to fill that gap, and even if it did, the impact on output, exports and employment would be far weaker than if the impetus comes from foreign private capital.

Portfolio inflows seem likely to grow, though their contribution to faster growth will depend on the extent to which such investment increases the African capital stock, and the efficiency with which it is used.

This leaves foreign direct investment, along with some return of flight capital, to transform Africa's economic prospects, as it is doing in much of Asia and Latin America. Continuing – and in many cases – acccelerated economic reforms will encourage foreign investors to revise their elephantine memories, but only if African political leaders and policy-makers take to heart Mr Einaudi's injunction.

The justification for joining the globalisation process does not lie in donor pressure and IMF and World Bank advice, but in the track records of those that have done so, bringing enormous benefits to their people in terms of jobs, income growth, and life styles.



There are also stock exchanges in Botswana, Sudan, Swaziland and Zambia and exchanges will open in Malawi, Tanzania and Uganda soon

■ **Economy:** by Tony Hawkins

On course for modest annual growth rate

A question mark still hangs over the continent's ability to sustain a long-term recovery

After 20 years of economic decline and falling living standards, the economy of sub-Saharan Africa may be turning the corner.

In its 1996 report on Global Economic Prospects, the World Bank predicts modest growth of 3.8 per cent annually for the region over the next decade to 2005. While this is well below the average for all developing economies of 5.3 per cent, it would be Africa's best performance since the 1960s and would reverse the decline in individual living standards that began with the first oil price crisis in 1974.

The Bank's optimism is both guarded and selective. It notes that the region's recovery last year, when sub-Saharan GDP is estimated to have increased 3.5 per cent to 4 per cent – the first year of per capita income growth since 1989 – was fuelled by a short-term improvement in commodity prices, but also by better economic policies in many countries, greater civil peace "in some areas" and the first signs of a positive spin-off from political transition in South Africa.

Averages mislead and the region's economic performance is substantially dependent on growth in South Africa, which accounts for a third of sub-Saharan GDP, and Nigeria, whose share is about 20 per cent. Both are countries with enormous economic potential. Equally, both have underperformed for the past decade and more. Hopes that political change in South Africa had opened the door to annual growth of 5 per cent or more through the rest of the 1990s, have taken a knock recently with the 20 per cent fall in the rand and the sense of drift in economic policy-making, other than at the central bank. In a high-cost, low-productivity economy, South Africa's politicians must confront the trade union movement head-on if the country is to realise its economic potential and become the engine driving economic recovery in southern and eastern Africa.

Southern Africa will enjoy a strong agriculture-led rebound this year, following the best rains in a decade. After five years of falling per capita incomes, Zimbabwe is anticipating GDP growth of 7 per cent or 8 per cent in 1996, fuelled by a 20 per cent rise in agricultural production – a booming tobacco sector with auction floor leaf prices up 50 per cent so far this season, continued expansion in gold mining and the commissioning towards the end of the year of the Hartley platinum mine, being developed by BHP Minerals of Australia. Malawi, Mozambique and Zambia will also put in stronger performances this year, though here, too, the improvement will have more to do with favourable climatic conditions, and in some cases, commodity prices, than better "fundamentals".

According to the World Bank, the prospects for the region's second largest economy, Nigeria, are "uncertain". Bleak, might be a better word, given the bank's own forecast

Global integration of trade and investment*

Country/region	Speed of integration index
High income countries	0.31
East Asia	0.77
Latin America/Caribbean	-0.23
North Africa/Middle East	-0.19
Sub-Saharan Africa	-0.46
Singapore	3.52
Belgium-Luxembourg	2.24
Mauritius	2.35
Portugal	1.89
Turkey	1.87
Malaysia	1.80
Mexico	1.44
Philippines	0.99
Morocco	0.97
Indonesia	0.81
Ghana	0.56

*The index measures ratios of trade and foreign investment to GDP as well as a country's creditworthiness. Source: World Bank Global Economic Prospects (1996)

Continued on page 2

■ **Inward investment:** by Tony Hawkins

Left out in the cold by investors

The pattern of global flows of funds is skewed towards nations producing oil

In a decade at which foreign direct investment (FDI) has become the lead factor in the global economy, sub-Saharan *Africa has been left out in the* cold. According to the annual World Investment Report, published by the United Nations Conference on Trade and *Development (Unctad), sub-Saharan* Africa's share of the world stock of inward foreign investment grew by a third from $32.9bn in 1980 to an estimated $43.6bn in 1994, but its share plunged to only 2 per cent from 6.8 per cent.

Two trends were at work: disinvestment from some African economies, especially South Africa and Zimbabwe, and the region's diminishing *share in the fast-growing world* total of new inward flows. Between 1983 and 1988, sub-Saharan Africa attracted an average of $1bn in new foreign private investment each year – just over 5 per cent of total *flows to all developing* countries.

But while this increased to $1.65bn in the first five years of the 1990s, Africa's share declined to less than 3 per cent.

Not only has the region lost ground to the rest of the world as an investment location, but within Africa the pattern of flows *is heavily skewed in* favour of oil-producing nations which account for two-thirds of the total. With South Africa showing a tiny net outflow *during the 1990-1994 period,* Nigeria has attracted the bulk of new investment, averaging $740m annually or 45 per cent of the total flow to sub-Saharan *Africa. Angola, also an oil* producer has attracted an average of $240m a year (14 per cent), while other significant locations have been Côte *d'Ivoire ($56m annually).* Namibia ($69m a year), Botswana ($40m), Swaziland ($46m) and, very surprisingly, Zambia with $118m a year. Striking absentees from the list are Kenya, *Mauritius, Ghana and* Zimbabwe, which has raised questions in some quarters about the reliability of Unctad's figures.

A *recent assessment by the* International Finance Corporation – the private sector investment arm of the World bank group – blames poor infra*structure, a relatively* unskilled workforce, macroeconomic instability and a battery of debilitating regulatory and policy influences for the region's *failure to share* in the global foreign investment boom. The latter group of constraints include a *highly bureaucratic* environment lacking in transparency, an undeveloped financial system, high taxation, restrictions on dividend and *profit remittability, curbs on* foreign ownership and on employment of expatriates, and a dominant, invariably inefficient, public sector.

For African living standards to increase modestly, the African economy needs a growth rate of 4 per cent to 5 per cent annually, which is above the World Bank's 3.8 per cent projection for the next decade. Growth of this magnitude implies investing at least a quarter of GDP, says the International Finance Corporation (IFC), compared with 16 per cent in the early 80s. With public sector investment programmes constrained by the search for budget spending cuts in most countries, the investment ball is squarely in the private sector's court. Yet *in recent years, private sector* investment has averaged a mere 9 per cent of GDP.

> The signs suggest that the aid industry has peaked

On the assumption that public investment levels are maintained *at current levels of* around 6 per cent of GDP – which would be optimistic – private sector investment will have to virtually double to around 20 per cent for the region to grow at 5 per cent annually. *Given that savings follow growth, the investment* process will have to be kick-started from outside.

Three main sources of funds *are available: the first, and by* far the least desirable, would be increased aid flows. All the signs suggest that the aid industry has peaked and that *Africa will have to become less* dependent on the donors.

The second source of funds is the return of flight capital, which certainly contributed to the recovery of investment in Latin America. In 1991, the stock of African flight capital was estimated at some 90 per cent of the region's GDP ($150bn). This was more than five times total investment, 11 times private sector investment and 130 times foreign investment. If only 10 per cent *of this flight capital were to* return, this would be sufficient to double the inflow of foreign capital.

Sub-Saharan Africa foreign direct investment	1980 ($bn)	1994 ($bn)
South Africa	16.50	11.0
Nigeria	2.40	11.3
Angola	0.06	2.7
Zimbabwe	7.00	2.3
Namibia	n.a.	2.2
gabon	0.50	1.4
Côte d'Ivoire	0.65	1.3
Botswana	0.27	1.0
Cameroon	0.30	0.9
Zambia	0.40	0.8
Total	32.90	43.6
of which South Africa/Nigeria	57%	51%

Source: World Bank, Global Economic Prospects (1996)

Proceeds from privatisation in sub-Saharan Africa	
Year	$m
1988	10
1989	681
1990	71
1991	50
1992	178
1993	648
1994	792
Total	2,429

Source: World Bank, Debt Tables 1995/96

As yet, however, there are few signs of such a capital flight reversal, nor indeed of any sustained return of African skills to the continent. The continued depreciation of African currencies, which seems destined to continue, albeit at a slower rate than in the past five years, is likely to discourage Africans with offshore investments from bringing them home. Higher taxes, shaky banks and as yet undeveloped and highly illiquid stock markets with a very narrow range of counters on offer, will also work against the return of private capital from offshore.

The third, and potentially the most rewarding source of funds, is new foreign direct investment. This is far superior to both aid and the return *of flight capital because FDI is* a package of money, skills, expertise, technology and, more often than not, export market access.

The main reason why multinationals are investing in Africa today is to exploit natural resources, especially, oil, gas and minerals, though there is also a small, but increasing flow to tourism and some service sectors. Manufacturing, however, is losing out, as there appears to be precious little support for the widely-held belief that low-cost labour will encourage multinationals to relocate job-intensive operations in parts of Africa. *One reason for this is low* labour productivity – it is labour quality rather than cost that counts – and a second reason is the relative insignificance of labour costs when compared with material, transport and other costs in many manufacturing operations.

Nor is there much enthusiasm for investing in Africa to exploit local markets. This type of investment has withered in the face of trade liberalisation and the enhanced importance of scale economies. South Africa is an exception, though as many multinationals, returning to South Africa or expanding their operations there, are targeting regional markets as far north as Kenya, Zaire and even beyond.

Few African countries have much to offer as export platforms for manufactures, though Mauritius has been highly successful in exporting textiles. Other countries with surplus labour may yet follow its example.

Privatisation has obvious attractions for foreign companies, but Africa is lagging the cycle with total sales of only $2.4bn since 1988, $1.3bn of which has come from foreign investors. During the rest of the decade, there will be hundreds of state-owned enterprises to be partially or fully privatised, which along with resource investment, mainly in energy and mining, are likely to be the main opportunities for foreign capital. Portfolio inflows, at present tiny, will grow, too, as stock markets are developed, more exchange controls go and privatisation gathers momentum.

An area where private capital is desperately needed, especially as public programmes are cut back, will be investment in the region's deteriorating infrastructure. In a number *of countries, initiatives to* allow private sector participation in the provision and maintenance of infrastructure, through toll-road systems and *the contracting out of harbour* maintenance and management and electricity generation and distribution, have been launched.

This is a trend that will grow, offering potentially attractive openings for foreign capital and expertise.

Africa funds*			
Fund name	Size	Inception	Type
Morgan Stanley Africa Investment Fund	$263m	2/94	close-end
Alliance Capital Southern Africa Fund	$118m	3/94	close-end
Simba Fund (Barings Asset Management)	$100m	11/95	close-end
Old Mutual South Africa Trust	$100m	7/94	close-end
New South Africa Fund (Fleming International)	$85m	3/94	close-end
Saftt (Intrag/UBS Asset Management)	$70m	7/94	open-end
Africa Emerging Markets Fund (Emerging Markets Management)	$58m	3/94	semi-open
West Africa Growth Fund (Framlington Invest. Management)	$40m	11/95	open-end
Framlington Maghreb Fund	$28m	9/94	close-end
GT Africa Fund (GT Management)	$17m	11/95	open-end
Southern Africa Fund (Save & Prosper)	$13m	8/94	open-end
Credit Suisse South Africa Fund	$9m	7/94	open-end

* As at January 1, 1996

Source: FT statistics

■ **Africa funds:** by Joel Kibazo

Reforms catch the eye

South Africa's peaceful political transition has attracted attention to the continent

The growth in the number of dedicated Africa funds over the past two years is perhaps the clearest sign that international investors are slowly warming to the financial opportunities in Africa and the possibility of high returns from the continent's markets.

Over the past two and a half years, some 12 institutions have formed Africa funds, with four launched in the past six months alone. Together, the portfolios are valued at around $1bn and most of them are investing in the growing number of African stock *markets*.

Dedicated funds launched include the biggest, the $263m Morgan Stanley Africa Investment Fund, a closed-end equity and debt fund which *was* formed in early 1994. The Africa Emerging markets fund, which is listed in Ireland but managed in Virginia US, and *Africa Framlington's West Africa* growth fund, formed last November with the specific aim of investing in Francophone countries and markets in the region.

Reasons for the growth in the number of specialist Africa funds are not hard to see. Many fund managers point to *the economic reforms that* have began to transform the business environment in Africa. Investors have been encouraged by the lifting of exchange controls, the intro*duction of market*-determined currency rates, the increasing number of stock markets in which to invest as well as mechanisms to allow foreign participation in those markets.

John Legat, of GT Management whose Africa open-ended Africa fund was *launched last* November, says: "I am reluctant to invest in any country that is not undertaking economic reform." Thus, countries such as Sudan and Zaire, *he says*, are off his agenda while, in Nigeria, he will only invest in the dollar-denominated bond market where he finds the "12-13 per cent yield *attractive* and there is little *risk* of not getting one's money out".

The relatively peaceful political transition in South Africa *has also done much to attract* attention to the continent. With the world's 10th largest stock market, a sizeable bond market and a developed indus*trial base which has produced* sophisticated companies, South Africa remains the biggest draw for would-be international investors in Africa.

Further attention was encouraged by South Africa's inclusion in the Morgan Stanley and International Finance Corporation (IFC) indices used by *many emerging market* watchers as performance benchmarks. Such inclusion has forced emerging market specialists looking to diversify *their portfolios to consider* investing in South Africa.

But the continent as a whole has also attracted the attention of portfolio managers keen to *diversify their portfolios* and acutely aware of the increasingly shrinking gains from more mature emerging markets such as those in Latin America and Asia.

Investors who took the plunge appear to have been well rewarded. In general terms, a 40 per cent return on investment *shows* Africa to have been the best performing emerging market last year. Individually, Morgan Stanley says its fund saw a return of *about 7 per cent in 1994*, while that figure jumped to 26.1 per cent in 1995.

However, with the asset allocation in many of the funds heavily weighted *in favour* of South Africa, the recent slide of the rand and the decline of the Johannesburg Stock Exchange index has had a sharp impact on performance this year.

Morgan Stanley admitted that the events in South Africa had so far had a negative effect on the company's fund. *The* portfolio is 60 per cent weighted in favour of South African stocks and debt and it registered a −0.6 per cent *decline in the first* quarter of this year.

But Jaideep Khanna, portfolio manager for sub-Sahara Africa at Morgan Stanley, *remains optimistic. He said:* "We expect the South Africa situation to bottom out and we should be helped by the fact that our fund is geared to *exporters and we should see* good earnings growth in a number of other markets."

Mike Power, at Baring Asset Management (BAM), shares that view. BAM launched its Simba fund, a $30m purely equity closed-end fund in November and started investing in January. With about 37 *per cent of the fund* (in currencies) impacted by the rand's recent decline, Mr Power says his portfolio has done well to do no worse than move sideways in the first quarter of the year.

Mr Power said: "I think with the resource market recovery, we will see a bounce back espe*cially if the growth we are seeing in countries such as* Kenya, Zimbabwe and Ivory Coast continues."

GT Management's Africa *fund*, investing in both equities and debt products, is among those that have reported a gain this year. With 28 per cent cent of the portfolio exposed to South Africa, it has still managed to show a gain of 10 per cent since December.

According to Lipper Analytical Services, a US fund research firm, the Ireland-listed Africa Emerging Markets Fund showed a NAV gain of 5.64 per cent in the first quarter of this year. John Niepold, its US-based manager, is among those that had considered the South African market to be overvalued and thus due for a correction.

He remains positive about the markets outside South Africa and says he is particularly keen on Mauritius as well as on mining companies listed *both on African exchanges* and on exchanges those listed offshore.

Analysts expect the number of specialist Africa funds to *increase over the next few* years. Mrs Cynthia Valliianti Corbett, an independent financial consultant who has been an Africa specialist for 15 *years, said: "I can only see the* number of funds growing. More and more people will soon realise there is good money to be made in Africa. *However, I would expect the* future growth in these funds to be targeted at the more sophisticated risk-tolerant investor, one who is willing to take a medium- *to a long-term* investment approach."

Miles Morland, at Blackney Management, who specialises in research on Africa and the Middle East, has also pointed out that weighting of the portfolios is changing. While the first wave of funds concentrated on South Africa, this has been changing and the split is now 65/35 in favour of other African markets and will continue moving in that direction.

But for all the growing number of specialist Africa portfolios, Mrs Valliianti Corbett is keen to put things in perspective. She said: "The number of *funds maybe are growing but* they still account for only a fraction of the total emerging markets funds under management."

Set for modest growth rate

Continued from page 1

of weaker oil prices, the continued deterioration in the manufacturing sector and the dismal socio-political outlook.

On the other hand, the prospects for the CFA franc zone have brightened dramatically since the CFA was devalued by 50 per cent in January 1994. Exports have responded to devaluation, inflation has been controlled far more effectively than anyone expected and higher coffee and cocoa prices in 1994/95 helped boost exports and output.

These positive developments notwithstanding, a question mark hangs over Africa's ability to translate one-off commodity price or favourable seasonal gains into long-term, self-sustained growth. According to Oxford economist Professor Paul Collier, securing the required supply response in Africa is dependent on the creation of a "minimum adequate environment" – macroeconomic stability, internal peace and the rule of law, appropriate trade and exchange rate regimes and a reduction of public sector intervention in the economy.

But even where an appropriate enabling environment is in place, the region's ability to achieve self-sustained growth is far from assured. Economic recovery – *as distinct from* growth – in reforming economies has been driven by resource-intensive industries, notably energy and mining, but also agriculture, and in a handful of countries, by tourism. African politicians and businessmen are united in warning that their economies are being de-industrialised as a result of the implementation of *structural adjustment* programmes.

For what they are worth the published figures show manufacturing's share of GDP *declining in many African* economies, while the United Nations Industrial Development Organisation (Unido) estimates sub-Saharan industrial *growth at less than 1 per* cent annually in the 1990s compared with 8 per cent a year in the 1960s. Globally, the region continues to lose market share in respect of both manufacturing output and exports.

The supply response has been smothered by weak infra*structure, by high transport* costs and by a failure of African institutions – the civil service, the parastatals that still dominate large sectors of the *African economy, the tax and* customs department, the police and the judicial system – to measure up to the demands of the global economy. In 1991, for instance, sub-Saharan Africa's net freight and insurance payments were 15 per cent of its total exports, more than double the 5.8 per cent for all developing economies. In 15 sub-Saharan countries, net transport and insurance payments absorb more than a quarter of total export earnings.

Its hardly surprising therefore that Africa lags far behind in the globalisation stakes – the extent to which a region has integrated with the world economy. Such integration is measured by the ratio of foreign trade to GDP, inflows of *foreign* private investment, the share of manufactures in total exports and a country's creditworthiness in the eyes of international lenders and investors. According to Global Economic Prospects (1996), sub-Saharan Africa's speed of integration with the global economy over the past 10 years has been slower than that of any other region. Only two economies – Mauritius and Ghana – feature positively in the World Bank's speed of integration league table, with Mauritius ranking above Asian tigers such as Hong Kong, Thailand and Malaysia.

A possible – partial – way out is regional integration as a staging post along the road to fully-fledged globalisation. Particularly in southern and East Africa there is a number of initiatives, several of them over*lapping, to develop regional* economic blocs. The southern African electric power grid, driven by the South African parastatal, Eskom, the Beira *Corridor and Maputo corridor* projects involving Mozambique, South Africa, Swaziland and Zimbabwe, the revival of the East African Community, *embracing Kenya, Tanzania* and Uganda, will all strengthen infrastructure and improve efficiency. Little progress has yet been made in stimulating intra-regional trade, other than the increased share of the regional market being taken by South Africa, a trend likely to accelerate this year, given the undervalued rand.

Missing – until very recently – from most African economic reform programmes, has been the word, competitiveness. The World Bank and IMF have long promoted classical-style comparative advantage based on *the exploitation of a country's* "inherited" advantages, which in Africa means minerals, oil, gas, agriculture, tourism and low-cost – but low productivity – workers. In the mid-1990s, competitiveness has less to do with inherited "advantages" of this kind than with quality, design, style, delivery – all of which depend far more on the quality and training of labour than its cost.

African policy-makers, perturbed not just at their marginalisation – the region accounts for a mere 2 per cent of global GDP – but at the implications *for economic growth and* unemployment of de-industrialisation because of the region's inability to compete in global markets are looking for a new post-structural adjustment strategy. Payments and trade systems have been liberalised, *privatisation is taking off,* albeit more slowly than in other developing regions, fiscal deficits are being cut, positive real interest rates are the norm, *banks are being* restructured and strengthened, and the public service revamped. More often than not, implementation, especially in *respect of public sector reform,* lags well behind what is needed but the trend is positive, if slow and erratic.

Yet when all this is in place, *will the supply response materialise* or will Africa find that it is so far behind in the race that it still cannot close the gap?

World growth summary Percentage change per year in real GDP							
Region	1966-1973	1974-1980	1981-1990	1991-1993	1994[1]	1995-1996[2]	1995-2004[2]
World total	5.1	3.4	3.1	1.5	2.8	3.1	3.3
Developing countries	*6.9*	*5.3*	*3.0*	*1.0*	3.9	4.8	5.3
East Asia	7.9	7.1	7.9	9.4	9.2	8.2	7.9
South Asia	3.7	4.0	5.7	3.9	5.5	5.5	5.4
Sub-Saharan Africa	4.7	3.5	1.7	0.7	3.6	3.7	3.8
Latin America & the Caribbean	6.4	4.8	1.7	3.6	0.9	2.6	3.8
Europe & central Asia	6.9	6.1	2.1	−9.0	−7.0	3.0	4.3
Middle East & North Africa	8.5	4.9	0.6	2.4	2.5	3.2	2.9

[1] Estimated, [2] Forecasts

Source: Global Economic Prospects & the Developing Countries, World Bank, Washington D.C. 1996

PROFILE **Kofi Bucknor**

African banker

Kofi Bucknor, the Ghanaian-born executive director for Africa at Lehman Brothers, the US investment bank, is passionate about Africa. Yet, in spite of his feelings for the continent, he is not slow in outlining its shortcomings. And he is among the first to point to the traps that lie ahead as the region grapples with economic reform.

His knowledge of the continent's financial situation is not surprising: he has enjoyed a long career in both public and private sector banking in the US, Africa, and the City of London.

Kofi Bucknor: many investment opportunities in Africa

A graduate of the universities of Ghana and Columbia in the US, Mr Bucknor, 41, joined Lehmans in 1994, having first worked for Chemical Bank in New York and then the African Development Bank (AfDB), where he rose to the high profile position of treasurer at the troubled institution.

While the sheer scale of the problems faced by the AfDB has led many to question its raison d'être, Mr Bucknor believes the bank still has an important role to play. "What I would like to see is a greater involvement with the private sector, with the bank using its credit rating to support market-driven structures and to tap the expertise of the private sector. This could include natural resources projects in oil and gas and the construction of toll roads. The bank would be using its powers as a catalyst."

This, he believes, is where the AfDB can have most impact, "given the financial constraints facing most African governments and the increasing interest of the private sector in the developed countries in becoming involved in Africa".

Having made, he says, "my very small contribution" over eight years working for perhaps the most august of public institutions in Africa, he jumped at the chance of joining Lehmans. "I was very interested in finding ways of bringing international capital markets to the opportunities in Africa. I've always felt the opportunities were there, if only one could find the way to package them so as to attract the international investor."

His role at Lehmans includes analysing corporate finance opportunities, particularly those arising from the growing list of privatisations in Africa; looking at the continent's growing list of stock markets; and searching for opportunities for trading in bonds and other debt-related instruments.

His position at Lehmans cost him a directorship at Ashanti Goldfields, the Ghanaian mining giant. "I had too much on my plate and had to make hard choices."

His position at Lehmans Brothers makes him one of the City's most senior black figures. "I don't think corporations in the City are doing enough to look at potential black candidates."

Joel Kibazo

■ **Banking:** by Joel Kibazo

Banks are starting to alter course

Indigenous institutions are being challenged by foreign banks with larger resources

The twin forces of economic reform and growing competition have prompted the biggest changes in Africa's banking sector this century.

Indigenous banks, often under-capitalised and poorly managed, are now being challenged by foreign banks with far greater resources, and supervision standards are rising, along with customer expectations of better service.

Among the casualties has been the Meridien BIAO network, which operated in 20 sub-Saharan countries, while there has also been a spate of closures in Nigeria, Zambia and Kenya, where government-owned banks finally paid the price for non-performing loans based on political patronage.

Some of the biggest changes, however, are prompted by a drive for greater efficiency, and are taking place within the oldest banks on the continent, such as Standard Chartered and Barclays, which boast the widest network.

Economic liberalisation in many African countries has seen governments licence many new privately-owned banks over the last decade, some of which have provided stiff competition for the older established banks. As one analyst puts it: "Let's just say there used to be a cosy relationship between Barclays and Standard. That is now no longer the case."

Chris Keljik, general regional manager for Africa at Standard Chartered bank accepts change was needed: "We started seeing margins squeezed and if we were not careful the business would start to suffer."

It decided to concentrate on three areas, the first being trade finance: "We are particularly strong in Asia so we decided we could offer a service to the many exporters in Africa wishing to trade with the Asia-Pacific region," said Chris Keljik.

The second part of Standard Chartered's strategy involves upgrading its retail banking service. The group has decided to introduce new technology into the network in an effort to improve its services.

The group also plans to strengthen its position in the corporate banking field. To deliver on its three-pronged strategy the group has also had to look at its personnel. It has changed every country manager in Africa over the past two years and is planning a big training programme for the next tier down.

As a result of the review, the bank has withdrawn from the custody business leaving the field clear to its arch rival Barclays. Mr Keljik said: "We looked at ourselves and decided we could not be all things to all people so we had to leave some areas."

But Standard Chartered is not the only foreign bank being forced to change. Bob Bird, finance and operations director for Africa at Barclays, said: "The winds of change are blowing through African banking and we are all being forced to change."

As well as trading on group strengths such as global custody, Barclays has moved to bolster its information technology in a bid to improve customer service. Says Bob Bird : "What we are seeing is customers that are demanding more services. I would say the changes that have taken place in many developed countries are already starting to happen in Africa but at an even greater pace fuelled by technology improvement."

Barclays has also strengthened its treasury capability in the region to take advantage of liberalised currency and money markets.

While Barclays and Standard Chartered continue to dominate banking activity on the continent as a whole, groups such as Citibank have grabbed a slice of the continent's increasing corporate activity.

The US bank has also moved into francophone Africa and is represented in the Ivory Coast, Gabon, and Senegal. "Ours is a pan-African strategy which makes us the only banking

Some of the changes are prompted by an efficiency drive

group that has transcended the Francophone, Anglophone, Arabic divide in Africa,"says Bob Annibale, Citbank group treasurer for Africa.

Making inroads into Francophone west Africa, however, presents a particular challenge, for there is a common currency and the banking sector in all participating countries remains tightly controlled and regulated through a single central bank.

Many of the banks in the region, with the exception of Citibank, are affiliates of French banking groups, but analysts believe the region will be opened up to greater competition as economic liberalisation increases.

Reform has also forced many African governments to deal with their domestic commercial banks, many of which have gained a reputation for making poor loans which have brought several of them to the brink of disaster.

As part of the reform process, several governments have reduced their stake in these banks as part of an excersice designed to put them on a sound footing.

In Kenya, for example, the government has decided to reduce its holding in the Kenya Commercial Bank, having already sold 20 per cent of its stake in 1994.

The Ghanaian government has taken the same route and earlier this year started the sale of a 60 per cent holding in Ghana Commercial Bank. Some 30 per cent of the offer has been set aside for a strategic investor to come forward, while another 30 per cent was sold to the public.

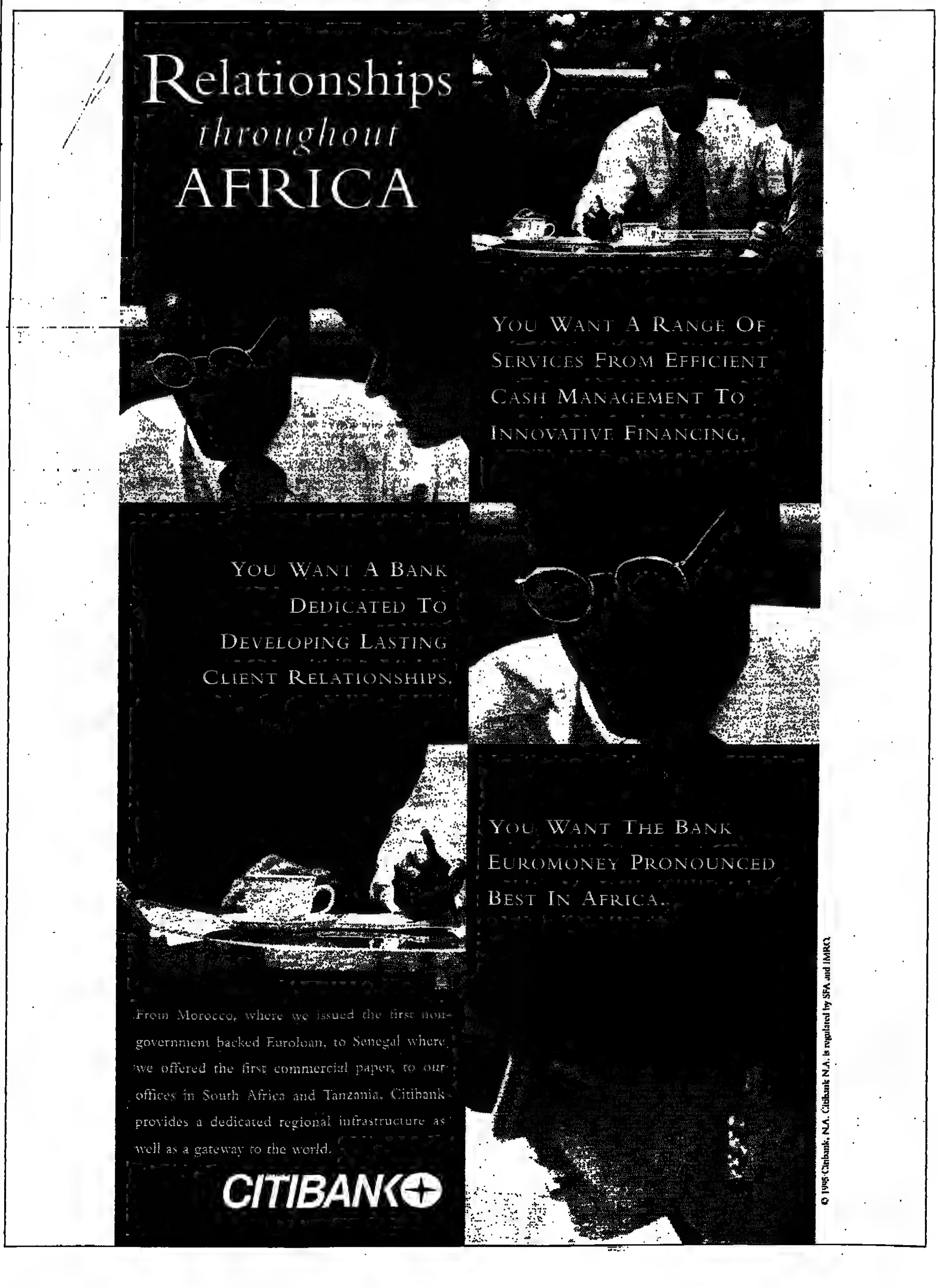
However, the biggest challenge to both the established foreign banks and commercial banks is likely to come from South Africa's banks. Last year, First National Bank took over the Swaziland operations of Meridien BIAO but it is the move by Standard Bank of South Africa that has provided the biggest threat to the established order.

Having acquired ANZ Grindlays interests in 1992 and the Tanzanian operations of Meridien BIAO in 1995, the bank, which goes under the name of Stanbic in the region, is now represented in 14 African countries.

Although the collapse of Meridien BIAO prompted a renewed look at banking supervision in many African capitals, several problems still lie ahead for the continent's banking sector.

In Nigeria, the fall-out from the sector's over-expansion in the 1980s continues. While more than 120 banks have lost their licences, analysts continue to suggest more tears are likely before a solid sector finally emerges.

In Uganda, the several analysts have warned that the poor state of the banking sector could impede the progress of one of Africa's fastest growing economies. Not only is a large part of the sector still in the public domain, indigenous banks not only face a high ratio of non-performing loans but have to contend with ever-increasing competition.



■ **Foreign debt:** by Tony Hawkins

Crisis worsens

Debt forgiveness programmes have increased, but the overall position has deteriorated

Inevitably, the near-total reliance of most African countries on official capital flows, has spawned an external debt crisis that can only be solved by debt forgiveness.

In 1995, official flows of all kinds accounted for more than 90 per cent of net inflows, with 74 per cent of the official inflows being grants and 24 per cent being concessional loans. Sub-Saharan Africa is the largest recipient of official development assistance, estimated at almost $17bn in 1995.

At the end of 1995, 70 per cent of Africa's debt (90 per cent excluding Nigeria and South Africa) was owed to official creditors – governments and multilateral institutions such as the World Bank and IMF and the African Development Bank – which between them accounted for almost a third of the debt.

Although bilateral creditors have increased their debt forgiveness programmes, the region's overall debt profile continues to deteriorate. While last year, sub-Saharan Africa's total external debt rose only 5 per cent to $223bn – much of which was South African ???– the region's debt to total export ratio increased to 389 per cent (*excluding South Africa*) compared with 150 per cent for all developing countries.

A second indicator of the long-term seriousness of the situation is the growth in arrears, which have virtually doubled from $32.7bn in 1991 to more than $62bn last year. Total arrears are now equivalent to three quarters of annual export earnings. For most countries, says the World Bank, the debt burden is "unsustainably high" and of the 40 countries around the world classified as "heavily indebted" no fewer than 33 are in sub-Saharan Africa.

If South Africa is excluded, almost one fifth of the region's annual export earnings is earmarked for debt-servicing. Not only is this burden growing (from 17.3 per cent in 1994 to 19.5 per cent last year) but it is understated by the official numbers which are calculated on the basis of actual, as distinct from scheduled, debt-service payments. The surge in interest arrears ($11bn since 1990) and capital repayment arrears ($23.5bn) highlights just how unsustainable the situation has become.

Given the continuing deterioration in the region's debt profile, the donor community has come up with three core solutions. The most obvious is debt relief. In 1994, some $3bn of bilateral debt was written off and a similar amount again last year, much of it by France as part of its post-CFA devaluation assistance programme to its former colonies. The main beneficiaries were Côte d'Ivoire with $1.1bn, Cameroon with $500m and Gabon and Senegal with $200m each. Zambia was the only country outside Francophone Africa to receive a significant amount of debt forgiveness, ($500m).

The second, highly controversial and partial solution, now under discussion, is a strategy for easing the burden of debt-service payments to the multilaterals, especially the World Bank and International Monetary Fund. The third involves ensuring that new flows to Africa contribute to a solution rather than exacerbating the problem.

The necessity for donor funding to rehabilitate and strengthen the region's infrastructure and institutional capacity is accepted, since without an adequate enabling environment, private sector investment will fail to take off and the output and export supply response will remain weak.

Aid dependence levels have grown with economic reform programmes. Today, sub-Saharan Africa accounts for more than 36 per cent of global bilateral aid. Aid inflows are equivalent to 11 per cent of the region's GDP, reaching a high of 88 per cent in the case of Mozambique. The African average of 11.3 per cent compares with 1.2 per cent in the Middle-East and North Africa, 0.7 per cent in Asia and 0.4 per cent in Latin America.

At a time when the aid budgets are under scrutiny, if not attack, in many donor countries, there is much to be said for the argument that donors should focus on debt relief and emergency assistance, which has grown substantially in Africa in recent years.

If, as seems probable, aid is now a sunset industry, then it is all the more important that scarce funds be used to alleviate Africa's debt crisis, rather than compounding it, partly by adding to the debt burden in the form of more loans, but also by deepening the extent of aid-dependence.

Many economists now argue that the combination of debt forgiveness and the knowledge that new finance will have to be found by attracting private capital or by encouraging the return of private flight capital, would do more for economic reform than donor consultative group meetings and endless donor cajolery and threats.

South Africa: by Mark Ashurst

Comfort zone under pressure

The weaker rand has wiped out many gains from a bull run on the equities market

Commercial and retail banks, long viewed as a barometer of South Africa's financial health, are well placed to absorb the impact of tougher competition, waning consumer confidence and the upward pressure on costs that are beginning to dispel the euphoria of the past two years.

The four main banking groups reported strong headline growth and an increase in total assets for the six months to March. But there is no doubt that South Africa's return to the global economy is beginning to erode the comfort zone traditionally enjoyed by local institutions.

"All the banks are trying to cut the ratio of expenses to total income from around 65 per cent to about 60 per cent. Those kinds of savings cannot be achieved by losing a few staff – they require a re-engineering of the whole business," notes Jacko Maree, managing director of Standard Corporate and Merchant Bank.

The rand meltdown, which saw the currency lose 20 per cent of its value over three months to May, precipitated a 1 per cent rise in the central bank lending rate to 16 per cent. From October 1, the costs of day-to-day transactions – where margins are already higher than in similarly developed western economies – will be increased by a VAT levy of 14 per cent on all bank charges. A fall in demand for credit is also likely to spur selective discounting in the retail sector, the staple income of the local groups, although the scope for cost-cutting has been partially reduced by an across-the-board increase in provisions.

"Bad debts resulting from the 27 per cent growth in new vehicle sales in 1995 are coming through this year," says one analyst. "The credit card market has hit a brick wall and we are seeing a slowing of instalment sales. Overdrafts are used only as a bail-out."

The consequences of more testing conditions in the domestic market will mostly be in line with trends elsewhere. Analysts are unanimous that high street banks will become more retail-oriented, there will be a trimming down of capacity, and a previously unresponsive market will become more competitive.

> The rand meltdown caused a rise in the bank rate

The erosion of the traditional profit centres for banks in the retail and commercial sectors, widely referred to as "a protected species" by businessmen in other industries, is offset by the exponential growth in South Africa's share of global trade.

More than 50 foreign banks are now represented in Johannesburg, and their business is concentrated entirely in the corporate and merchant banking sectors.

The extent of their investment varies dramatically. The largest, Citibank, has a capital base of R140m and 90 staff; many more have sent a lone representative to test the market before deciding on the merits of a greater commitment. Several institutions, including Merrill Lynch of the US and the UK's NatWest, have entered the securities market by buying into broking firms on the Johannesburg Stock Exchange.

Not all the newcomers will survive, although this is scant consolation for local competitors conscious that the foreigners who stay will bring irrevocable change to a corporate market where margins are already thin. The initial surge of interest in the run-up to the all-race election of 1994, has also waned as hopes of a profound restructuring in the corporate sector, extensive privatisation of state assets, and lucrative trade in the equity and debt markets have been disappointed.

The weaker rand has wiped out many of the gains from last year's bull run on the equities market, and apparently strengthened the government's resolve for an incremental phasing-out of exchange controls. Analysts have mostly abandoned their attempts to predict a timetable for the unbundling of South Africa's biggest conglomerates. But the persistence of exchange controls is not the only disappointment for corporate financiers who, prior to the election, predicted a radical restructuring of the companies eager to release capital to expand their core businesses overseas.

The legacy of isolation is a labyrinthine network of cross-holdings among companies forced to invest their profits at home. When these conglomerates do unbundle – and they are well placed to decide the terms – they are likely to put their control positions up for sale. So the improvement in liquidity on the stock market will not unleash a lucrative bout of hostile takeover bids. "There has not been a hostile bid of any consequence in the past 15 years, and it is not likely they will be part of the picture in the future," says Mr Maree.

There is now no question of a big bang abolition. Foreign banks face a long wait before the wealthiest individuals may invest a portion of their assets in offshore mutual funds – a move likely to come in the final phase of the abolition of exchange controls.

"Our retail specialists have not even visited South Africa. It is not on their radar," notes Terry Davidson, managing director of Citibank. "It would be a tough sell, but it could happen in four or five years."

The spoils of privatisation have also been elusive. In December, deputy-president Thabo Mbeki announced plans to sell minority stakes in Telkom, the state-owned telephone monopoly, and South African Airways, and to privatise in their entirety two small regional airways and Autonet, the state road haulage company.

Thabo Mbeki: his plan to privatise Telkom and South African Airways have faltered

Jay Naidoo: has yet to announce a timetable for the sale of Telkom

The plan has faltered in the wake of fierce opposition from the Congress of South African Trade Unions. Goldman Sachs has been retained to advise the government on selling 20-30 per cent of Telkom's equity and Jay Naidoo, a former Cosatu leader, was appointed minister of telecommunications in late March – ostensibly in a bid to convince labour of the merits of the process. He has yet to announce a timetable for the sale.

Consequently, the newcomers have concentrated their activity in the areas of export credit and project financing where a 30 per cent increase in South Africa's share of global trade over the past two years has sharply increased the business available. Fierce competition for international cash management, trade financing and treasury work has encouraged a more global perspective among local institutions.

The most striking example is the tie-up announced in February between First National Bank and two of the world's top three cash management specialists. In an unprecedented private labelling agreement, FNB paid an estimated R30m for access to the global electronic networks of both Bank of America and Chase Manhattan, who are competing fiercely for market share in other parts of the world. The deal reflects the international groups' hesitation about investing heavily in southern Africa: "This is a very special situation and I don't think either Chase or Bank of America will actively solicit this kind of arrangement anywhere else," said Jay Runewitsch, an independent consultant to FNB.

Stock markets: by Joel Kibazo

Too volatile for amateurs

The continent's bourses have moved in contrary directions in the past year

A calmer atmosphere has descended over Africa's stock markets south of the Sahara following a volatile two-year period when the region's 12 bourses started attracting attention from domestic investors, from dedicated Africa funds, and from international fund managers eager to diversify their portfolios.

This interest sent shares in the region soaring. In 1994, Kenya's Nairobi Stock Exchange (NSE) recorded gains of around 107 per cent in dollar terms, making it by far the world's best performing emerging market that year. The rise was in part due to local buying ahead of the relaxation of rules governing foreign participation in the market. More modest gains were also recorded in Zimbabwe – up 24 per cent – and Ghana where the exchange surged by 65.3 per cent in dollar terms that year.

While 1995 brought a decline in many markets (and, in the case of the Nairobi Stock Exchange a steep retreat), on general profit-taking and consolidation, other markets that had been left behind the previous year became strong performers.

In Nigeria, bargain hunters were not deterred by the country's poor international image. The Lagos stock market surged by more than 92 per cent in dollar terms that year as both local and international investors bought stock in a market regarded as fundamentally cheap, while the Ivory Coast stock market showed gains of more than 80 per cent.

The latest data reveals a sector that has become less volatile. According to figures from Blackney Management, which specialises in research on Africa and the Middle East, in the year to the begining of May 1996, Zimbabwe turned out to be the best performer in the region, the market there rising by 25.2 per cent in US dollar terms. The index in the Ivory Coast gained 9.3 per cent, Nigeria rose by 8.1 per cent and in Ghana the index was up 1.5 per cent on the previous year. The worst performers have included Namibia, where the stock exchange index fell by 19.4 per cent, South Africa down by around 14 per cent (based on the industrials index), Kenya, down 16.5 per cent and Botswana, where the decline in dollar terms was 12.7 per cent.

No single reason explains all the gains and losses, except in one instance. In South Africa, groundless rumours in February that President Mandela had had a heart attack prompted a sharp fall in the rand and sent equities plummeting on the Johannesburg Stock Exchange (JSE), Africa's biggest and the 10th largest in the world by capitalisation. Market jitters continued with the departure of finance minister Chris Liebenberg and the withdrawal from the government of national unity of F.W. de Klerk, the National party leader and deputy president, earlier this month. The net result was that between February and May 17 the rand fell by 18.4 per cent while the Johannesburg industrial index fell 9.9 per cent between April 22 and May 9.

That decline in both the money and equity markets had a sharp impact on neighbouring stock markets, particularly those connected to the rand, helping to explain the decline in Namibia, Swaziland, and Botswana.

Conversely, the falls in South Africa are believed to have played a part in the sharp gains seen in neighbouring Zimbabwe. Miles Morland at Blackney Management says: "I think some foreign investors have been taking money out of South Africa and putting it into the Zimbabwe market. As a result the market is now starting to look expensive."

Nigel Rendell at HSBC James Capel, the UK broker, remains enthusiastic about Zimbabwe and has advised clients to go "overweight" on the market.

Kenya's stock market is another that has been moving to the top of the list of favoured markets. Last year's decline, which continued into this year, was put down to consolidation, poor earnings, particularly from agriculture related companies, and concerted selling from local investors in anticipation of this year's new issues.

This is expected to change next month when Kenya Airways, the newly privatised state carrier, starts trading on the Nairobi Stock Exchange.

In Nigeria, the market has continued to move steadily ahead, though with less momentum than last year. Jonathan Long, managing director of First City Merchant Bank in Lagos said: "The market is still strong and there is potential but now investors are much more selective and many are sticking to particular sectors such as oil, soap and detergent and consumer products."

Yet strategists continue to warn that investing in African markets is not for the amateur. Many of the markets remain small and poorly capitalised. Turnover is poor, with well below 10 per cent of market capitalisation traded in each year on many exchanges. Broking charges remain relatively high in several of the markets and the number of trained personnel remains low.

But the bourses are putting their house in order. According to Roy Andersen, president of the JSE and current chairman of the Africa Stock Exchange Association (Asea), there are plans to introduce an examination for all new market participants and an investment analysis course. This will operate in four centres on the continent, with the first starting next month in Johannesburg. In an attempt to address foreign investors' concerns, October's Asea annual meeting in Cairo is to focus on ways to improve clearing and settlement procedure.

PROFILE Standard Bank of South Africa

African giant spreads its wings

The dire warnings from international institutions, the International Monetary Fund included, about mismanagement and impoverishment in Africa have not daunted Graeme Bell, senior general manager of Standard Bank's Africa banking group. By contrast he believes Africa is moving towards a renaissance. "The first African leaders are dying out and the post-liberation generation are much more receptive to free market ideas."

Since acquiring the African network of ANZ Grindlays bank in 1992, Standard Bank has become the continent's largest bank in terms of market capitalisation and profits.

Last year, its interests in 14 African countries outside South Africa contributed 7 per cent of the group's after-tax profit.

Half of Standard's subsidiaries in Africa – where it trades as Stanbic under the umbrella African Banking Group – are wholly-owned.

In 1995, Standard acquired 100 per cent of Barclays in Lesotho and Meridien BIAO's operation in Tanzania. Since 1991 it has held 10 per cent of a joint venture on the Indian Ocean rim with Madagascar's Union Commercial Bank.

In many respects, South Africa's banks are replacing European interests which have withdrawn from countries north of its borders, says Mr Bell. Standard's principal competitors are Citibank, Equator Bank, the London-based merchant banks and independent South African investment banks.

"We are not foreigners. We are of this continent. All the big African companies have trade missions in South Africa. A strategic advantage today does not come from sentiment. We need to build inter-regional trade and where one party is South African, we have a clear advantage."

Alan McConnochie, analyst at BoE Natwest Securities, says the Grindlay's acquisition has enabled Standard "to leapfrog the other South African banks" in building closer links with mainland Africa, although Nedbank has also expanded its links with the continent.

Standard Bank's expanding network in Africa*

Bank	Branches	Interest (%)
Merchant Bank Ghana	4	30
Stanbic Merchant Bank Nigeria	2	40
Stanbic Bank Zaire	1	100
Stanbic Bank Zambia	6	100
Stanbic Bank Zimbabwe	11	100
Stanbic Bank Kenya	2	60
Stanbic Bank Uganda	2	51
Stanbic Bank Tanzania	3	100
Stanbic Bank Lesotho	4	100
Stanbic Bank Botswana	3	100
Standard Bank Namibia	21	100
Stanbic Bank Swaziland	5	70
Banco Standard Totta de Mocambique	14	40.72
Union Commercial Bank SA, Madagascar	1	10

* Because of a clash of names with its former parent, Standard Chartered, Standard Bank's branches in some parts of Africa are named Stanbic, which is also the abbreviation for its holding company, Standard Bank Investment Corporation. Source: Standard Bank of South Africa, Johannesburg

Trade financing, including credit guarantees and foreign exchange management, remain the core business for international banks. But the burgeoning African gold industry holds promise for Standard's treasury department in Johannesburg and London, which managed this year's record long-term gold hedge at South Africa's Western Deep and Beatrix mines.

A consequence of the IMF's controversial structural adjustment programmes in Africa has also been a continent-wide conversion to privatisation.

After advising both the Ghanaian government, on the sale of its Social Security Bank, and the Zairean authorities on the listing of Chilanga Cement, the first listing on the Lusaka Stock Exchange, Standard hopes to lead three further privatisations this year.

"We would not have been in Ghana, Nigeria and Zaire, but we had to take all seven countries when we bought Grindlays," recalls Mr Bell. "If you can make something for your trouble it's worth holding on. The opportunities are limitless."

Mark Ashurst

Privatisation: by Michael Holman

Still trailing the rest of the world

Two outstanding examples underline arguments in favour of state divestiture

The late Ron Brown, former US secretary for commerce, did not pull his punches in the course of a five-country Africa tour which he completed shortly before his fatal aircraft crash.

"There is too much lip service paid to privatisation in Africa," he bluntly told one business meeting he addressed. "Entire economies would grow, it would be worth the effort .. it is the key to economic growth and job creation."

Two outstanding examples underline arguments in favour of state divestiture – the transformation of a struggling African gold mine and a loss-making airline into highly profitable operations.

The successful flotation of Ghana's Ashanti Goldfields in 1994 left the company with 34,000 shareholders around the world, and over the past three years Kenya Airways has been turned around, with the Dutch national carrier KLM taking a 26 per cent stake, a flotation on the Kenyan and London markets, and the injection of management marketing expertise.

Both operations were made possible by radical changes in the economic environment in which they operated – notably the introduction of market-determined exchange rates, and the lifting of exchange controls in the context of a structural adjustment programme supported by the World Bank and monitored by the International Monetary Fund.

Unfortunately, these examples are still the exception rather than the rule. A decade after privatisation became an international theme, Africa is still trailing the rest of the world.

Between 1988 and 1993, the bulk of privatisations (57 per cent by value) took place in Latin America and Caribbean regions, followed by Europe and Central Asia with 18.7 per cent, says a report by the International Finance Company (IFC)[1]. Sub-Saharan Africa, the Middle East, and North Africa had only a minimal share.

Only a few countries (Benin, Mali, Senegal, Togo) have divested as many as half their enterprises, most often by liquidation, according to a World Bank study[2].

Even for these countries, the entities divested were very small in terms of assets. Across the continent as a whole, says the Bank, "about 550 enterprises had been divested by 1992 in 29 countries, which represents less than 20 per cent of all public enterprises and a much smaller share of assets," notes the Bank.

Part of the explanation of Africa's poor record, say economists, is the reluctance of many of the continent's governments to surrender the patronage that state-controlled corporations provide.

In South Africa, the government is constrained by a hostile trade union movement, while in Zambia the government's reluctance to surrender control over production of the country's main foreign exchange earner has led to continuing delays in fulfilling a pledge to privatise the copper mines it nationalised in the early 1970s.

Whatever the explanation, "most sub-Saharan African countries are still in the start-up phase of their reforms programmes", says the United Nations Conference on Trade and Development (Unctad) in its 1995 World Investment Report[3].

The result is that of the total sales receipts of about \$113bn from privatisations in developing countries during the period 1988-1994, only about \$1.4bn stem from sales in sub-Saharan Africa, according to Unctad calculations.

While sell-offs in the developing countries as a group resulted in average revenues per \$1,000 of GDP of more than \$23 during 1988-94, sales in sub-Saharan Africa amounted to only slightly over \$1.7 per \$1,000 of GDP.

On the face of it, momentum is picking up. After a slow start in the late 1980s and early 1990s, when receipts fell well short of \$100m a year, proceeds soared in 1993 to \$648m and rose further the following year to \$792m.

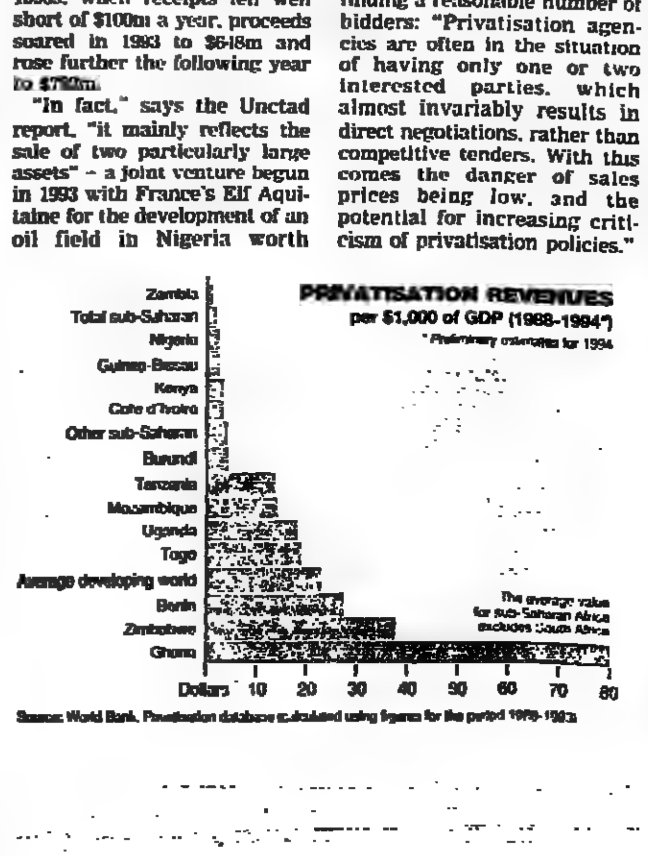
"In fact," says the Unctad report, "it mainly reflects the sale of two particularly large assets" – a joint venture begun in 1993 with France's Elf Aquitaine for the development of an oil field in Nigeria worth \$500m, and proceeds from the Ashanti offer, which come to about \$400m.

Part of the problem, comments Unctad, is that "foreign investors in many cases do not have equal access to privatisation programmes".

Potentially interested buyers often face what the report euphemistically refers to as "non-transparent processes", as well as bureaucratic delays and unpredictable decision-making.

"Instances have occurred," the report continues, "where sales decisions made after a lengthy and difficult process have been reversed for political considerations."

The result, says Unctad, is that in many cases governments experience difficulties in finding a reasonable number of bidders: "Privatisation agencies are often in the situation of having only one or two interested parties, which almost invariably results in direct negotiations, rather than competitive tenders. With this comes the danger of sales prices being low, and the potential for increasing criticism of privatisation policies."



Source: World Bank, Privatisation database calculated using figures for the period 1988-1993

The consequences of the slow rate of privatisation were highlighted in a recent World Bank report.

"Inefficient parastatals engaged in commercial activities continue to draw on scarce budgetary resources and on the banking system, raising the overall cost of credit and crowding out private investors."

Public enterprises in Africa, the Bank estimates, "consume about 20 per cent of available human and capital resources, but contribute only about 10 per cent to value added."

In Ghana, non-performing debts and unpaid corporate taxes of public enterprises amount to about 3 per cent of GDP.

In Nigeria, it has been estimated that the size, weight and poor performance of the public enterprise sector add 25 per cent to the cost of doing private business in the country.

In five other African countries, the Bank report continues, total direct transfers from government to public enterprises accounted for 14 to 22 per cent of expenditures: indirect flows amounted to another 14 per cent.

"The urgency of the task cannot be minimised since this is a major way for the government to signal to the private sector its support for private sector-led growth."

The Bank warns: "Governments have to move farther and faster on this than they have over the last five years if private sector investment is to take off and provide accelerated growth."

[1] *Privatization, Principles and Practice*, International Finance Corporation, Washington.
[2] *A Continent in Transition: Sub-Saharan Africa in the mid-1990s*, World Bank, November 1995.
[3] *World Investment Report*, 1995 Unctad.

CURRENCIES AND MONEY

POUND SPOT FORWARD AGAINST THE POUND

May 17		Closing mid-point	Change on day	Bid/offer spread	Day's Mid high	Day's Mid low	One month Rate	One month %PA	Three months Rate	Three months %PA	One year Rate	One year %PA	Bank of Eng. Index
Europe													
Austria	(Sch)	16.2771	-0.0701	695 - 846	16.3241	16.2706	16.2459	2.3	16.1709	2.6	-	-	104.9
Belgium	(BFr)	47.5482	-0.2351	092 - 872	47.8040	47.5050	47.4432	2.8	47.2332	2.6	46.2132	2.8	106.7
Denmark	(DKr)	8.9267	-0.0388	244 - 330	8.9556	8.9195	8.9133	2.1	8.8804	2.2	8.7372	2.1	107.4
Finland	(FM)	7.1296	-0.0093	231 - 361	7.1500	7.1110	7.1252	0.7	7.1171	0.7	-	-	83.0
France	(FFr)	7.8356	-0.0295	326 - 385	7.8617	7.8289	7.8215	2.2	7.7986	2.1	7.6807	2.2	109.1
Germany	(DM)	2.3132	-0.0099	122 - 142	2.3204	2.3097	2.3083	2.6	2.2978	2.7	2.2475	2.8	108.3
Greece	(Dr)	368.704	-1.282	536 - 872	369.823	366.296	-	-	-	-	-	-	67.3
Ireland	(I£)	0.9691	-0.0009	686 - 696	0.9703	0.9674	0.9683	1.0	0.967	0.9	0.9602	0.9	98.4
Italy	(L)	2343.57	-9.31	265 - 449	2358.25	2340.19	2351.92	-4.2	2368.92	-4.0	2419.82	-3.2	76.4
Luxembourg	(LFr)	47.5482	-0.2351	092 - 872	47.8040	47.5050	47.4432	2.8	47.2332	2.6	46.3132	2.6	106.7
Netherlands	(Fl)	2.5844	-0.0131	830 - 857	2.5949	2.5833	2.5761	2.9	2.5654	2.9	2.5082	3.0	107.1
Norway	(NKr)	9.9264	-0.0335	204 - 363	9.9548	9.9212	9.9194	1.1	9.9003	1.1	9.8046	1.2	98.4
Portugal	(Es)	238.063	-0.748	932 - 194	238.723	237.770	238.488	-2.1	239.393	-2.2	-	-	94.7
Spain	(Pta)	193.245	-0.798	125 - 366	193.979	193.118	193.555	-1.9	194.05	-1.7	195.705	-1.3	81.2
Sweden	(SKr)	10.2085	-0.0262	995 - 174	10.2268	10.1943	10.2097	-0.1	10.2114	-0.1	10.2136	0.0	89.4
Switzerland	(SFr)	1.8961	-0.0087	940 - 973	1.9025	1.8930	1.8899	3.9	1.8771	4.0	1.8194	4.0	111.2
UK	(£)	-	-	-	-	-	-	-	-	-	-	-	84.4
Ecu	-	1.2296	-0.0053	290 - 301	1.2339	1.2288	1.2283	1.3	1.2253	1.4	1.212	1.4	-
SDR†	-	1.04900	-	-	-	-	-	-	-	-	-	-	-
Americas													
Argentina	(Peso)	1.5146	+0.004	133 - 158	1.5158	1.5126	-	-	-	-	-	-	-
Brazil	(R$)	1.5090	+0.0024	085 - 095	1.5095	1.5057	-	-	-	-	-	-	-
Canada	(C$)	2.0766	+0.009	757 - 774	2.0775	2.0718	2.0759	0.4	2.0722	0.8	2.0642	0.6	84.1
Mexico	(New Peso)	11.2151	+0.0009	087 - 214	11.2548	11.2012	-	-	-	-	-	-	-
USA	($)	1.5157	+0.004	153 - 160	1.5160	1.5124	1.5149	0.6	1.5134	0.6	1.5089	0.4	96.8
Pacific/Middle East/Africa													
Australia	(A$)	1.8931	+0.0061	920 - 941	1.8986	1.8870	1.8957	-1.6	1.9007	-1.6	1.926	-1.7	94.3
Hong Kong	(HK$)	11.7243	+0.0294	208 - 278	11.7283	11.6993	11.7162	0.8	11.7046	0.7	11.6848	0.3	-
India	(Rs)	52.8205	+0.3681	294 - 116	53.8200	52.3510	-	-	-	-	-	-	-
Israel	(Shk)	4.9100	+0.0018	047 - 153	4.9238	4.8931	-	-	-	-	-	-	-
Japan	(Y)	161.637	+0.412	531 - 742	162.060	161.010	160.912	6.4	159.422	5.8	153.007	5.3	137.4
Malaysia	(M$)	3.7725	+0.0036	708 - 741	3.7786	3.7648	-	-	-	-	-	-	-
New Zealand	(NZ$)	2.2093	+0.0097	078 - 108	2.2109	2.2015	2.2143	-2.7	2.2237	-2.6	2.2578	-2.2	107.3
Philippines	(Peso)	39.5191	+0.0894	493 - 889	39.5948	39.5476	-	-	-	-	-	-	-
Saudi Arabia	(SR)	5.6842	+0.0149	825 - 858	5.6882	5.6723	-	-	-	-	-	-	-
Singapore	(S$)	2.1333	+0.0041	320 - 345	2.1348	2.1296	-	-	-	-	-	-	-
South Africa	(R)	6.5476	-0.0394	385 - 567	6.6025	6.5206	-	-	-	-	-	-	-
South Korea	(Won)	1182.38	+4.48	193 - 278	1182.88	1178.95	-	-	-	-	-	-	-
Taiwan	(T$)	41.2727	+0.1361	558 - 896	41.2898	41.1796	-	-	-	-	-	-	-
Thailand	(Bt)	38.3225	+0.0823	098 - 351	38.3380	38.2390	-	-	-	-	-	-	-

† Rates for May 16. Bid/offer spreads in the Pound Spot table show only the last three decimal places. Forward rates are not directly quoted to the market but are implied by current interest rates. Sterling index calculated by the Bank of England. Base average 1990 = 100. Index rebased 1/2/95. Bid, Offer and Mid-rates in both this and the Dollar Spot tables derived from THE WM/REUTERS CLOSING SPOT RATES. Some values are rounded by the F.T.

DOLLAR SPOT FORWARD AGAINST THE DOLLAR

May 17		Closing mid-point	Change on day	Bid/offer spread	Day's mid high	Day's mid low	One month Rate	One month %PA	Three months Rate	Three months %PA	One year Rate	One year %PA	J.P Morgan index
Europe													
Austria	(Sch)	10.7393	-0.0746	368 - 418	10.7820	10.7350	10.7198	2.2	10.6778	2.3	10.4943	2.3	104.6
Belgium	(BFr)	31.3715	-0.2385	530 - 900	31.5540	31.3360	31.3165	2.1	31.2015	2.2	30.6615	2.3	106.3
Denmark	(DKr)	5.8910	-0.04	895 - 925	5.9146	5.8836	5.8835	1.5	5.8665	1.7	5.7975	1.6	106.4
Finland	(FM)	4.7040	-0.0168	008 - 072	4.7217	4.6920	4.6975	1.7	4.6855	1.6	4.64	1.4	82.4
France	(FFr)	5.1698	-0.0092	690 - 705	5.1920	5.1642	5.1629	1.6	5.1486	1.6	5.0908	1.7	108.3
Germany	(DM)	1.5262	-0.0109	255 - 268	1.5328	1.5240	1.5237	2.0	1.5178	2.2	1.4997	2.4	107.4
Greece	(Dr)	241.945	-1.495	890 - 000	244.140	241.620	243.62	-8.3	246.97	-8.3	260.945	-7.9	66.8
Ireland	(I£)	1.5640	+0.0055	635 - 645	1.5671	1.5604	1.5646	-0.4	1.5656	-0.4	1.557	0.5	-
Italy	(L)	1546.25	-10.25	600 - 650	1556.50	1543.66	1552.3	-4.7	1563.86	-4.6	1604.75	-3.8	75.8
Luxembourg	(LFr)	31.3715	-0.2385	530 - 900	31.5540	31.3360	31.3185	2.0	31.212	2.0	30.7315	2.0	106.3
Netherlands	(Fl)	1.7051	-0.0132	046 - 056	1.7130	1.7040	1.7018	2.4	1.6948	2.5	1.6629	2.5	106.3
Norway	(NKr)	6.5506	-0.0385	469 - 543	6.5788	6.5443	6.5478	0.5	6.5421	0.5	6.5036	0.7	97.4
Portugal	(Es)	157.070	-0.91	020 - 120	157.570	156.840	157.385	-2.4	157.975	-2.3	160.12	-1.9	94.7
Spain	(Pta)	127.500	-0.865	450 - 550	128.030	127.400	127.75	-2.4	128.18	-2.1	129.72	-1.7	80.7
Sweden	(SKr)	6.7354	-0.0352	310 - 397	6.7527	6.7236	6.7465	-2.0	6.7639	-1.7	6.8059	-1.0	88.9
Switzerland	(SFr)	1.2510	-0.0078	505 - 515	1.2575	1.2467	1.2474	3.4	1.24	3.5	1.2065	3.6	110.6
UK	(£)	1.5157	+0.004	153 - 160	1.5160	1.5124	1.5149	0.6	1.5134	0.6	1.5089	0.4	84.1
Ecu	-	1.2327	+0.0030	324 - 330	1.2335	1.2265	1.2334	-0.7	1.2351	-0.8	1.2439	-0.9	-
SDR†	-	0.69319	-	-	-	-	-	-	-	-	-	-	-
Americas													
Argentina	(Peso)	0.9993	-	987 - 999	1.0001	0.9987	-	-	-	-	-	-	-
Brazil	(R$)	0.9956	-0.0011	955 - 957	0.9957	0.9945	-	-	-	-	-	-	-
Canada	(C$)	1.3701	+0.0023	698 - 703	1.3715	1.3684	1.37	0.1	1.3702	0.0	1.373	-0.2	83.6
Mexico	(New Peso)	7.3995	-0.019	970 - 020	7.4100	7.3900	7.561	-26.2	7.746	-18.7	8.5095	-26.5	-
USA	($)	-	-	-	-	-	-	-	-	-	-	-	97.5
Pacific/Middle East/Africa													
Australia	(A$)	1.2489	+0.002	485 - 494	1.2524	1.2477	1.2509	-1.9	1.2544	-1.8	1.2731	-1.9	98.0
Hong Kong	(HK$)	7.7355	-0.001	350 - 360	7.7363	7.7350	7.7362	-0.1	7.738	-0.1	7.765	-0.4	-
India	(Rs)	34.8500	+0.15	000 - 000	35.4000	34.5600	35	-6.2	35.305	-6.2	36.775	-5.6	-
Israel	(Shk)	3.2396	-0.0073	365 - 425	3.2500	3.2308	-	-	-	-	-	-	-
Japan	(Y)	106.845	-0.71	800 - 890	107.100	106.300	106.2	6.0	105.3	6.0	101.56	4.8	138.1
Malaysia	(M$)	2.4890	-0.0042	885 - 895	2.4923	2.4884	2.4899	-0.4	2.496	-1.1	2.5195	-1.2	-
New Zealand	(NZ$)	1.4575	+0.0025	558 - 584	1.4584	1.4556	1.4606	-2.6	1.4664	-2.4	1.491	-2.3	-
Philippines	(Peso)	26.1400	-0.01	000 - 800	26.1600	26.1000	-	-	-	-	-	-	-
Saudi Arabia	(SR)	3.7503	-0.0001	501 - 505	3.7505	3.7501	3.7508	-0.1	3.7515	-0.1	3.7548	-0.1	-
Singapore	(S$)	1.4075	-0.001	070 - 080	1.4082	1.4070	1.404	3.0	1.398	2.7	1.3725	2.5	-
South Africa	(R)	4.3200	-0.0375	150 - 250	4.3575	4.3100	4.3487	-8.0	4.4003	-7.4	4.6235	-7.0	-
South Korea	(Won)	780.100	+0.9	000 - 200	780.600	778.500	-	-	-	-	-	-	-
Taiwan	(T$)	27.2310	+0.018	260 - 360	27.2360	27.2100	27.251	-0.9	27.291	-0.9	-	-	-
Thailand	(Bt)	25.2845	-0.0125	820 - 870	25.2900	25.2810	25.3833	-4.7	25.587	-4.8	26.4685	-4.7	-

† SDR rate per $ for May 16. Bid/offer spreads in the Dollar Spot table show only the last three decimal places. Forward rates are not directly quoted to the market but are implied by current interest rates. UK, Ireland & ECU are quoted in US currency. J.P. Morgan nominal indices May 16: Base average 1990=100.

WORLD INTEREST RATES

MONEY RATES

[illegible]

EURO CURRENCY INTEREST RATES

[illegible]

CROSS RATES AND DERIVATIVES

EXCHANGE CROSS RATES

May 17		BFr	DKr	FFr	DM	I£	L	Fl	NKr	Es	Pta	SKr	SFr	£	C$	$	Y	Ecu
Belgium	(BFr)	100	18.78	16.48	4.864	2.038	4927	5.434	20.88	500.7	406.3	21.47	3.987	2.103	4.368	3.188	339.9	2.587
Denmark	(DKr)	53.26	10	8.776	2.590	1.085	2624	2.894	11.12	266.7	216.4	11.43	2.123	1.120	2.326	1.698	181.0	1.378
France	(FFr)	60.68	11.39	10	2.952	1.237	2990	3.298	12.67	303.9	246.6	13.03	2.420	1.276	2.651	1.935	206.2	1.570
Germany	(DM)	20.56	3.860	3.388	1	0.419	1013	1.117	4.292	102.9	83.53	4.414	0.820	0.432	0.898	0.655	69.87	0.532
Ireland	(I£)	49.07	9.215	8.087	2.387	1	2418	2.667	10.25	245.7	199.4	10.54	1.957	1.032	2.143	1.564	166.8	1.269

[illegible]

Danish Kroner, French Franc, Norwegian Kroner, and Swedish Kronor per 10; Belgian Franc, Yen, Escudo, Lira and Peseta per 100.

D-MARK FUTURES (IMM) DM 125,000 per DM

[illegible]

SWISS FRANC FUTURES (IMM) SFr 125,000 per SFr

[illegible]

JAPANESE YEN FUTURES (IMM) Yen 12.5 per Yen 100

[illegible]

STERLING FUTURES (IMM) £62,500 per £

[illegible]

PHILADELPHIA SE £/$ OPTIONS £31,250 (cents per pound)

[illegible]

Pound in New York

[illegible]

FT GUIDE to WORLD CURRENCIES

The FT Guide to World Currencies table can be found on the Markets page in today's edition.

UK INTEREST RATES

LONDON MONEY RATES

[illegible]

BANK OF ENGLAND TREASURY BILL TENDER

[illegible]

BANK RETURN

[illegible]

BASE LENDING RATES

[illegible]

FT GOLD MINES INDEX

	May 17	% chg since 29/12/95	Mkt Cap $bn	% of Gold Mines	Gross div yield %	P/E ratio	52 week High	52 week Low
Gold Mines Index (31)	2367.48	+23.2	88.96	100.00	1.82	-	2526.23	1725.85
■ Regional Indices								
Africa (13)	3197.82	+27.8	18.98	28.37	2.38	44.32	3353.86	2272.74
Australasia (6)	2604.34	+8.9	6.26	10.40	2.55	28.85	2927.34	2098.51
North America (12)	[illegible]							

LONDON RECENT ISSUES: EQUITIES

[illegible]

† Alternative Investment Market. For a full explanation of all other symbols please refer to The London Share Service notes.

RIGHTS OFFERS

[illegible]

UK GILTS PRICES

[illegible]

Other Fixed Interest

[illegible]

STOCK INDICES

[illegible]

FT MANAGED FUNDS SERVICE

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OFFSHORE AND OVERSEAS

BERMUDA (SIB RECOGNISED)

Fidelity Currency Funds Ltd

[illegible]

BERMUDA (REGULATED)(**)

[illegible]

GUERNSEY (SIB RECOGNISED)

[illegible]

Royal Bk of Canada O/S Fd Mgrs Ltd - Contd.

[illegible]

Sarasin Funds Mngmt (Guernsey) Ltd

[illegible]

Schroder Investment Mngmt (Guernsey) Ltd

[illegible]

GUERNSEY (REGULATED)(**)

[illegible]

IRELAND (SIB RECOGNISED)

[illegible]

Henderson Crosthwaite Investment Co

[illegible]

LGT Asset Management Ltd

[illegible]

IRELAND (REGULATED)(**)

[illegible]

Credit Lyonnais Intl Asset Mgt (HK) Ltd

[illegible]

Daiwa Europe Fund Mgrs Ireland Ltd

[illegible]

Dragon Korea Fund Plc

[illegible]

Dynamic Pacific Portfolio Fund Plc

[illegible]

Egerton Capital European Fund Plc

[illegible]

ISLE OF MAN (SIB RECOGNISED)

[illegible]

Ashburton Global Funds Ltd (1200)

[illegible]

Bank of Ireland Asset Mngmt (IOM) Ltd

[illegible]

CMI Fund Managers (IoM)

[illegible]

Mercury Fund Managers IoM Ltd

[illegible]

Quilter Intl Mngt (IoM) Ltd

[illegible]

ISLE OF MAN (REGULATED)(**)

[illegible]

JERSEY (SIB RECOGNISED)

[illegible]

JERSEY (REGULATED)(**)

[illegible]

INVESCO International Limited

[illegible]

LUXEMBOURG (SIB RECOGNISED)

[illegible]

Fidelity Funds - Contd.

[illegible]

Sarasin Investment SICAV (u)

[illegible]

LUXEMBOURG (REGULATED)(**)

[illegible]

هكذا من الأصل

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BANKS, RETAIL

BREWERIES, PUBS & REST

BUILDING & CONSTRUCTION

BUILDING MATS. & MERCHANTS

CHEMICALS

DISTRIBUTORS

DIVERSIFIED INDUSTRIALS

ELECTRICITY

ELECTRONIC & ELECTRICAL EQPT

ELECTRONIC & ELECTRICAL EQPT - Cont.

ENGINEERING

ENGINEERING - Cont.

ENGINEERING, VEHICLES

EXTRACTIVE INDUSTRIES

EXTRACTIVE INDUSTRIES - Cont.

FOOD PRODUCERS

GAS DISTRIBUTION

HEALTH CARE

HEALTH CARE - Cont.

HOUSEHOLD GOODS

INSURANCE

INVESTMENT TRUSTS

INVESTMENT TRUSTS - Cont.

INV TRUSTS SPLIT CAPITAL

LONDON SHARE SERVICE

INV TRUSTS SPLIT CAPITAL - Cont.

OTHER INVESTMENT TRUSTS

INVESTMENT COMPANIES

LEISURE & HOTELS

LEISURE & HOTELS - Cont.

LIFE ASSURANCE

MEDIA

OIL EXPLORATION & PRODUCTION

OIL, INTEGRATED

OTHER FINANCIAL

OTHER FINANCIAL - Cont.

PAPER, PACKAGING & PRINTING

PHARMACEUTICALS

PHARMACEUTICALS - Cont.

PROPERTY

PROPERTY - Cont.

RETAILERS, FOOD

RETAILERS, GENERAL

RETAILERS, GENERAL - Cont.

SUPPORT SERVICES

SUPPORT SERVICES - Cont.

TELECOMMUNICATIONS

TEXTILES & APPAREL

TOBACCO

TRANSPORT

WATER

AIM

AIM - Cont.

AMERICANS

CANADIANS

SOUTH AFRICANS

	Notes	Price	Wk% ch'ge	Div net	Div cov.	Dividends paid	Last xd	City line
Anglo Am Ind		820½	—	Q545c	♦	May Oct	3/95	–
Barlow	♣	595	-4.4	Q86c	♦	Jan Jul	11.12	–
Gold Flds Prop R		140½	2.2	Q66c	1.5	Mar Sep	25.2	–
NK Props		75	—	Q63.9c	–	Mar Sep	1.9	–
SASOL	♥	614	0.7	Q78c	♦	Oct	8/95	–
SA Brews		£16½	2.2	Q298c	♦	Jul Dec	27.11	–
Standard Bank	□	£24¾	1.8	Q294c	3.1	Sep Mar	–	–
Tiger Oats	†	880	-2.7	Q114c	3.0	Jan Jul	11.12	–
Tongaat-Hulett		675	-.1	Q136c	♦	Jan Jun	4.12	–

GUIDE TO LONDON SHARE SERVICE

Prices for the London Share Service delivered by FT Extel, a member of the Financial Times Group.

Company classifications are based on those used for the FT-SE Actuaries Share Indices.

Closing mid-prices are shown. Prices and net dividends are in pence unless otherwise indicated.

Where stocks are denominated in currencies other than sterling, this is indicated after the name.

Dividend covers are calculated on a "net" basis.

Market Capitalisations are published on Tuesdays-Saturdays except for Investment Trusts and British Funds.

- □ Indicates the most actively traded stocks. This includes UK stocks where transactions and prices are published continuously through the Stock Exchange Automated Quotation system (SEAQ) and non-UK stocks through the SEAQ International system.
- † Interim since increased or resumed
- ‡ Interim since reduced, passed or deferred
- Figures or report awaited
- ♥ Rule 2.1(a)(iv) Overseas incorporated companies listed on an approved exchange.
- ♣ Free annual/interim report available, see details below.
- USM; not listed on Stock Exchange and company not subjected to same degree of regulation as listed securities.
- ‡‡ Rule 4.2(a) Irish incorporated non-listed companies.
- Price at time of suspension
- ¶ Indicated dividend after pending scrip and/or rights issue: cover relates to previous dividend or forecast.
- ♦ Merger bid or reorganisation in progress
- Forecast dividend: cover based on earnings updated by latest interim statement.
- ♠ Unregulated collective investment scheme.

a Annualised dividend. b Figures based on prospectus or other official estimates. c Cents. g Assumed dividend. h Assumed dividend after scrip issue. m Interim higher than previous total. n Rights issue pending. q Earnings based on preliminary figures. s Dividend excludes a special payment. t Indicated dividend: cover relates to previous dividend. u Forecast, or estimated annualised dividend rate, cover based on previous year's earnings. z Dividend includes a special payment: Cover does not apply to special payment. F Dividend based on prospectus or other official estimates for 1996-97. G Assumed dividend after pending scrip and/ or rights issue. H Dividend based on prospectus or other official estimates for 1995. K Dividend based on prospectus or other official estimates for 1996. L Estimated annualised dividend, cover based on latest annual earnings. M Dividend based on prospectus or other official estimates for 1995-96. N Dividend is paid in whole or part as a FID (Foreign Income Dividend). O Gross. R Forecast annualised dividend, cover based on prospectus or other official estimates. W Pro forma figures. Z Dividend total to date.

Abbreviations: xd ex dividend; xc ex scrip issue; xr ex rights; xa ex all; xd ex capital distribution

This service is available to companies whose shares are regularly traded in the United Kingdom for a fee of £1350 a year for each security shown, subject to the Editor's discretion

FT Share Service

The following changes have been made to the FT Share Information Service: Additions: Raphael Hora Hamsley (AIM), Guinness Flight VCT (InCo), Otim Package Unit (InTr), Templeton C&E (InCo), ILP Grp (PP&P), Phytopharm (Phrm). Deletions: Trencherwood (BdCn), Taverners Tst (InTr), Melrose Energy Wrts (OilE).

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4 pm close May 17

NEW YORK STOCK EXCHANGE PRICES

1996 High	Low	Stock	Div	Yld. %	P/E	Sls 100s	High	Low	Close Quote	Ch'ge Prev. Close
23⅛	19⅛	AAR	0.48	2.1	25	875	u23⅛	22½	23⅛	+⅝
46⅛	35⅜	AMP	1.00	2.3	21	4620	43	42⅞	43	+⅜
95⅞	68	AMR			23	4196	u95⅞	94⅜	95⅞	+1¼
50½	37⅜	ASA x	1.80	4.0	29	623	45⅛	44⅞	44⅞	-⅜
44¾	39⅛	AbbtL	0.96	2.3	18	8582	41⅜	41	41⅜	+½
17¼	13⅜	Abitibi Pr	0.40	2.8	7	426	14½	14¼	14⅜	
36	27	ABM Ind	0.70	2.0	18	113	u36	35⅜	35⅝	+¼
17	13⅞	Acptncatn			44	327	u17	16⅝	17	+⅛
50⅜	37¾	ACE Ltd	0.56	1.2	10	401	45	44⅞	44⅞	+¼
9⅞	9⅛	ACM Gvt In x	0.90	9.2	8	166	9¾	9⅝	9¾	
7⅞	6¾	ACM GvOpp x	0.57	8.3		154	7	6⅞	6⅞	
7¼	6¼	ACM Gvt Sp x	0.66	10.4		309	6½	6⅜	6⅜	-⅛
9⅛	8¼	ACM Gvt Se x	0.90	10.4		201	8⅝	8½	8⅝	
9½	8¾	ACM Man x	0.90	10.0		303	9⅛	9	9	-⅛
30¾	16½	AcmeClv	0.52	1.7	7	408	30	29⅞	30	+⅛
13⅞	8⅛	Acme Elect			63	439	12⅜	11⅞	11⅞	-⅝
32½	27¾	Acordia	0.72	2.2	19	9	32	31¾	32	+¼
21⅞	12	Acuson			90	707	20¼	19⅝	19⅞	-¼
19½	18⅜	Adams Expr x	1.66	8.7	0	441	19⅛	19	19⅛	+⅛
21¼	16⅛	Adaptec			8	9453	19⅜	18½	19⅜	+¾
11⅛	8½	Advest Grp	0.16	1.5	7	61	10⅞	10¾	10⅞	+⅛
26⅛	9⅛	Advo Inc	0.10	0.9	61	333	11⅛	11	11⅛	+¼
50⅜	41⅛	Aegon	1.23	2.5	15	51	49¾	49¼	49⅜	-⅝
6¾	3½	Aerflx			4	1612	u6¾	6⅛	6⅜	+⅛
78¾	68⅜	AetnaL	2.76	3.9	18	5397	72	70¾	71⅝	+1⅛
[illegible]										

Continued on next page

4 pm close May 17

NYSE PRICES

Continued from previous page

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NASDAQ NATIONAL MARKET

4 pm close May 17

Stock	Div.	P/E	Sls 100s	High	Low	Last	Chng
ACC Corp	0.12	84	947	42	41¼	41½	-¼
Acclaim E		15	38731	u13⅞	12⅞	13⅝	+¾
Acme Mtls		8	32	17¾	17¼	17¾	+½
Acxiom Cp		41	4293	u29⅛	28⅛	29⅛	+⅞
Adaptech		31	6328	59⅝	57⅞	58⅝	+¾
ADC Tele		48	2891	49	47¾	48½	+¼
Addington		12	473	14⅛	13⅞	14	-⅛
AdiaADR	0.18	25	185	28⅞	28⅝	28⅞	+¼
Adobe Sys	0.20	35	12890	45	43	43	-1⅞
Adv Logic		13	4572	u9⅛	8½	8⅝	-¼
Adv Polym		14	992	9½	9¼	9¼	-⅛
AdvTchLab		31	960	35⅛	34⅛	35	+¼
Advanta	0.36	16	461	57½	56¾	57	+¼
AgnicoEa	0.10	55	70	20⅛	20	20⅛	+⅛
AirExpr	0.20	17	600	29	28¼	29	+½
Akzo ADR	1.75	10	346	57	56¾	56¾	+⅛
AlexBld	0.88	22	487	26½	25½	26½	+½
Allen Org x	0.52	12	95	37.21	37	37	
Allen Ph		17	3779	18⅞	18	18¾	+¾
AlldCapll	1.40	15	86	18⅛	17½	17½	-½
Alld Cap	1.08	12	40	13⅞	13½	13½	
Aloette C	0.32	22	6	4⅛	4⅛	4⅛	+⅜
Alta Gold	0.06	24	487	3½	3⅜	3⅜	-1/16
Altera Co		25	14079	48⅞	47⅜	48	-¾
Am Banker	0.76	10	158	41⅛	40¾	40¾	-⅛
AmCityy	0.16	2	66	8⅛	7¾	7⅞	-⅛

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AMEX PRICES

4 pm close May 17

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FT GUIDE TO THE WEEK

MONDAY 20

UK hopeful over beef ban

The EU's veterinary committee meets in Brussels to continue discussions on a strategy mapped out by Franz Fischler, the EU Commissioner for agriculture, under which it would agree to lift the ban on some British beef products if the UK tightened controls on gelatine and tallow production. Although Britain is optimistic that the ban will be eased, a number of countries, notably Germany and Austria, are against any lessening of the embargo.

Gummer chairs smog forum

John Gummer, the UK environment secretary, chairs a meeting with his counterparts from Belgium, Denmark, France, Germany, Ireland, Luxembourg and the Netherlands to consider how to tackle summer smog (to May 21). This is caused mainly by the interaction of sunlight with gases emitted by motor vehicles and mainly affects the health of elderly people and children with respiratory problems. The European Commission, the United Nations Economic Commission for Europe and the European Environment Agency will also be represented.

Unclouding the issues: John Gummer, the UK environment secretary, chairs a meeting of European states on Monday to discuss tackling summer smog

Taiwan president sworn in

Lee Teng-hui, Taiwan's first democratically elected president, is formally sworn into office after his landslide victory. Beijing has demanded Mr Lee makes an unequivocal commitment to the island's unification with China. Mr Lee's speech is expected to appear conciliatory while not yielding outright concessions. Some 10 heads of state will attend. Notably absent will be Nelson Mandela, whose government – Taiwan's biggest ally – seeks formal ties with Beijing. Taiwan has formal diplomatic ties with only 31 countries, which are mostly small. The US and other informal "friends" will send parliamentarians and retired officials.

WHO struggles for funds

The annual assembly of the World Health Organisation opens for a session in Geneva that has been truncated because of lack of funds (to May 25). The focus will inevitably be the budget crisis. The 190 members will also discuss destroying stocks of the smallpox virus by June 1999, following eradication of the disease, and the threat posed by deadly infectious diseases, such as malaria, tuberculosis, Aids, Ebola and perhaps Creutzfeldt-Jakob disease.

Pacific basin council opens

The 29th annual meeting of the Pacific Basin Economic Council opens in Washington (to May 23). It will be attended by business leaders and officials from 19 of the world's fastest growing economies. Topics listed for debate include "Asian values", "Food crisis – fact or fiction" and "Security in the Pacific". Speakers include Bill Clinton, the US president, Alberto Fujimori, the president of Peru, and the prime minister of Malaysia, Mahathir Mohamad.

Nordic states discuss Nato

Nordic defence ministers meet in Nyvaagar, Norway, to discuss the awkward issue of Nato enlargement – which poses particularly difficult questions for neutral Finland and Sweden. The security of the three independent Baltic states will also be on the agenda – they want to join Nato in the face of strong opposition from Russia.

Insurers debate environment

Insurance companies meet in London to consider ways of doing more to incorporate environmental risk into their business. The conference is organised by the United Nations Environmental Programme and a steering committee of the world's leading insurance companies. It is motivated by industry's growing concern about the mounting costs of insurance losses from environmental disasters and the potential role of climate change in triggering them.

French in privatisation push

The French government is expected to announce the privatisation price for shares in Assurances Générales de France, one of the country's largest insurers. The sale is expected to provide about half of the government's target this year of FFr20bn ($4bn) in privatisation revenues. It follows the government's recent announcement of plans to sell a further 6 per cent of its holding in Renault, the car manufacturer.

WTO raps US on gasoline

The World Trade Organisation in Geneva adopts the first judgment of its new appeals tribunal, upholding a ruling that US regulations on clean gasoline discriminate against imports. Washington has 30 days to tell WTO members how it will comply. Ironically, the US is the biggest single complainant to the WTO about other countries' behaviour.

FT Surveys

Egypt; Banking and Investment in Africa.

Public holidays

Cameroon, Canada, Cayman Islands, Colombia, Venezuela.

TUESDAY 21

EU farm ministers meet

EU agriculture ministers consider the veterinary committee's decision on UK beef. If this goes in Britain's favour, Douglas Hogg, the British agriculture minister, is expected to ask for the ban to be eased on further products.

Sport on European agenda

Sport will dominate the European Parliament's monthly plenary session in Strasbourg. A vote will be taken on whether the European Commission should guarantee cheap access to sports broadcasts which are of general interest in one or more member states. The resolution follows moves by pay-TV companies to buy the TV rights to big sporting events. A report on football hooliganism will also be debated.

Primakov boosts Cuba ties

Yevgeni Primakov, the Russian foreign minister, visits Cuba as part of a Latin American tour (to May 25). While in the past the Yeltsin government has pulled away from economic ties with this former client state of the Soviet Union, a Russian spokesmen said Mr Primakov's trip aimed to boost trade and economic co-operation. He will also visit Mexico, where he will be the highest-ranking Russian official to do so since the Soviet Union was dissolved. and Venezuela.

FT Surveys

Arizona; Automotive Components.

Public holidays

Chile.

WEDNESDAY 22

Nelson Mandela in Germany

Nelson Mandela, the president of South Africa, visits Germany on a three-day state trip. As well as holding talks with Helmut Kohl, the chancellor, Mr Mandela will meet Theo Waigel, the finance minister, and Hans Tietmeyer, the president of the Bundesbank. He will also deliver a speech to the Bundestag.

Perry speaks out on China

William Perry, the US defence secretary, speaks on US strategic interests in China as part of the Clinton administration's offensive to head off congressional attempts to impose conditions on the annual renewal of China's most favoured nation trade status. However, the administration is also threatening prohibitive tariffs on $3bn of Chinese goods in retaliation for Beijing's failure to curb product piracy. Loss of MFN status would virtually shut China out of the US, to which it exported $45.5bn of goods last year.

Australia reforms labour law

Australia's conservative federal government is likely to introduce controversial industrial relations legislation into parliament, although precise timing remains uncertain. The legislation is expected to toughen sanctions against industrial action, diminish employees' ability to bring unfair dismissal cases and reduce unions' involvement in wage-bargaining. The reforms face a battle in the Senate, Australia's upper house, where minor parties hold the balance of power.

UK parliament takes a break

The British parliament breaks up for the Whitsun recess, reconvening on June 4. The House of Commons will then sit uninterruptedly until the summer recess.

Football

European Cup final, Rome: Ajax v Juventus.

FT Surveys

Jersey: International Corporate Finance.

Public holidays

Sri Lanka, Yemen.

THURSDAY 23

European refugee concerns

A report is released in Geneva showing that since 1989 about 9m people have been uprooted within the Commonwealth of Independent States – one in 30 inhabitants – in "the largest, most complex and potentially most destabilising" movement in any region since the second world war. The report precedes a conference on May 30-31 sponsored by the UN High Commissioner for Refugees, the International Organisation for Migration and the Organisation for Security and Co-operation in Europe.

Greek telephones on the line

An appeals court is to appoint a prosecutor to investigate claims that Intracom, a Greek telecoms equipment supplier, bribed employees of OTE, the state telecoms monopoly, to secure a share of a contract. Intracom has denied the accusations.

Tony Blair meets Prodi

Tony Blair, the leader of the British Labour party, meets Romano Prodi, the new Italian prime minister, in Rome.

Cricket

One-day match: England v India, Oval cricket ground, London. Other England-India one-day games this week are on Saturday (Headingley) and Sunday (Old Trafford).

Public holidays

Israel, Jamaica, Morocco.

FRIDAY 24

Japan results season peaks

About 290 leading Japanese companies, including banks, announce their business results for the year ending in March. This is the peak of Japan's annual reporting season, which occurs between mid-April and early June, when by tradition more than 1,300 companies release their results. On average, corporate Japan has had its best season for seven years.

FT Surveys

Uruguay; Property Facilities Management.

Public holidays

Belize, Bermuda, Bulgaria, Ecuador, Israel, South Korea, Madagascar.

SATURDAY 25

Public holidays

Argentina, Chad, France, Guinea, Jordan, Mali, Mauritania, Namibia, Zambia, Zimbabwe.

SUNDAY 26

Albania election fears

Albania's general election pits the governing Democratic Party under President Sali Berisha against the formerly communist Socialists. The Socialist leader, former prime minister Fatos Nano, has been unable to campaign because he is serving a 12-year jail term on corruption charges which international human rights organisations say are questionable. The opposition has complained of police harassment and a lack of access to state-controlled radio and television, and there are fears that ballot box fraud is likely.

Greek Cypriots go to polls

Greek Cypriot voters on the divided island of Cyprus elect a new parliament. The rightwing Democratic Rally party under Yiannakis Matsis held an early lead in opinion polls. It was trailed by AKEL, the Cyprus communist party, whose secretary general, Demetris Christofias, is said to be the island's most popular politician. The main campaigns issues are Cyprus's hope of joining the European Union by 2000 and prospects for reuniting the island's Greek and Turkish halves.

Compiled by Simon Strong. Fax: (+44) (0)171 873 3194.

ECONOMIC DIARY

Other economic news

Monday: Italian producer price inflation is expected to have eased in March. Industrial production in the Netherlands is forecast to have fallen again.

Tuesday: The US FOMC meeting takes place in Washington. The Organisation for Economic Cooperation and Development ministerial meeting begins in Paris. The UK's M4 money supply is thought to have grown rapidly again last month, adding to worries about inflationary pressures.

Wednesday: Swedish industrial production is expected to have rebounded in March after February's contraction. Swedish retail sales are expected to show no growth.

Thursday: Revised figures for UK gross domestic product in the first quarter are published. UK retail sales data are expected to show improved conditions on the high-street last month. The Confederation of British Industry's industrial trends survey will give the latest indication of the health of UK industry.

Friday: US durable goods orders are likely to have shown more modest growth in April after the rebound in March. French industrial production is forecast to have grown only slightly in March.

Statistics to be released this week

Day Released	Country	Economic Statistic	Median Forecast	Previous Actual
Mon	Italy	Mar producer price index**	3.9%	4.9%
May 20	Italy	Mar wholesale price index**	6.0%	8.2%
	Neth'lds	Mar industrial production**	-1.0%	-1.5%
Tues	Japan	Mar industrial production†		-4.3%
May 21	Japan	Mar shipments†		-4.4%
	UK	Apr M4*	0.6%	1.1%
	UK	Apr M4**	10.1%	9.8%
	UK	Apr M4 lending £b	5.0	5.9
	UK	Apr bid soc net new cmtmnts £b	3.2	3.8
	Sweden	Mar current account SKrb	5.6	5.3
	US	Apr Treasury budget US$b	67.0	-47.3
Wed	Sweden	Mar retail sales**		-1.6%
May 22	Sweden	Mar industrial production** not†	1.0%	-0.5%
	Canada	Apr lead indicator*†	0.5%	0.7%
	Canada	Mar retail sales*†	0.0%	0.1%
	Canada	Apr dept store sales**	3.1%	3.1%
	US	Apr export price index		-0.1%
	US	Import price index		0.5%
	Canada	Mar wage settlement inc**	1.0%	0.9%
	Italy	May prelim con price index av*	0.3%	0.5%
	Italy	May prelim con price index av**	4.2%	4.5%
Thur	UK	Q1 gross dom product revised q/q	0.4%	0.4%
May 23	UK	Q1 gross dom product revised**	2.0%	2.0%
	UK	Apr retail sales*	0.5%	0.2%
	UK	Apr retail sales**	2.2%	2.2%
	Canada	Mar wholesale trade*†	0.5%	0.9%
	US	M1 w/e May 13 US$b	unch	10.0
	US	M2 w/e May 13 US$b	7.5	16.2
	US	M3 w/e May 13 US$b	6.0	24.0
Fri	Japan	Mar overall pers con expend**		3.2%
May 24	Japan	Mar pers con exp (workers)**		4.9%
	Japan	Mar income (workers)**		1.4%
	France	Apr consumer price index final*	0.1%	0.15%
	France	Apr consumer price index final**	2.3%	2.35%
	France	Mar industrial production*†	0.2%	
	France	Mar ind prod ex-energy*†	-0.8%	-1.2%
	US	Apr durable orders	-0.5%	1.4%
	US	Apr durable shipments		-0.6%
	Sweden	Apr trade balance SKrb	8.0	12.0
During the week...				
	Germany	May prelim cost of living - west*	0.1%	0.2%
	Germany	May prelim cost of living - west**	1.3%	1.3%
	Germany	Apr producer price index - west*	0.2%	-0.1%
	Germany	Apr producer price index - west**	-0.6%	-0.5%
	Germany	Apr prod price ind - pan-Ger*	0.2%	-0.1%
	Germany	Apr prod price ind - pan-Ger**	-0.4%	-0.3%
	Neth'lds	Apr unemployment (3 mth to)	7.0%	7.1%
	Japan	Apr supermarket sales**		2.6%
	Japan	Apr department store sales**		6.0%

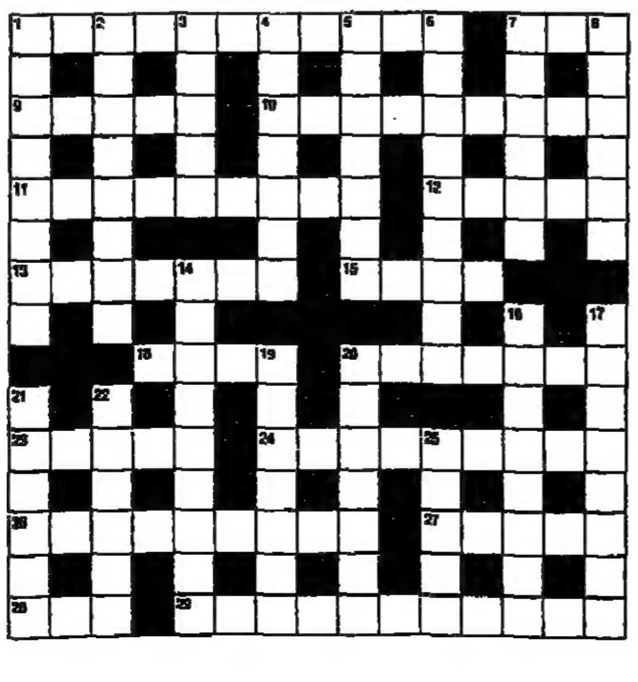
*mth on mth, **yr on yr, q/q qtr on qtr. † seas adjust *Statistics, courtesy MMS International.*

ACROSS

1 Sack attractive girl on finding exploding device (11)
7 Short man robbed 28 less (3)
9 Jog around Gateshead without clothes! (5)
10 Sapper Dan could make it smoother (9)
11 Lacking the will to leave? (9)
12 Precise exit Bill enters when I leave (5)
13 Marx brother ought to name weapon (7)
15 Before 1.50 volunteers form queue (4)
18 Stings redhead for a drink (4)
20 Indian doctor gets chain letters (7)
23 Brag about first sailing vessel (5)
24 Demolish an old copper – man is let out (9)
26 Work left by a Parisian till convenient (9)
27 It has a bit that's boring (5)
28 Not having answer to 7 across robbed of sleep? (3)
29 Not one restaurant employee reported getting soaked (11)

DOWN

1 Article in passage window (8)
2 Street trader stands holding songbird (8)
3 The mating game? (5)
4 Sailor wants Mark to refuse to vote (7)
5 The most considerate family is French (7)
6 Help rinse round and refill (9)
7 Scoff after salesman makes duplicate (6)
8 Scold despicable chap during social gathering (6)
14 Finished the pointless quarrel after defeat (9)
16 Cutting pipe in which cat first hid (8)
17 Princess needs lead mixture toughened (8)
19 Soldiers distrust stronghold (7)
20 Rubber amuses kinky king (7)
21 Jack's brother stands up to get drink in (6)
22 Panted, having rushed after raising a grand (6)
25 Sound reproduction from foreign car overhead (5)



MONDAY PRIZE CROSSWORD

No.9,073 Set by GRIFFIN

A prize of a Pelikan New Classic 380 fountain pen for the first correct solution opened and five runner-up prizes of £35 Pelikan vouchers will be awarded. Solutions by Thursday May 30, marked Monday Crossword 9,073 on the envelope, to the Financial Times, 1 Southwark Bridge, London SE1 9HL. Solution on Monday June 3. Please allow 28 days for delivery of prizes.

Name..

Address..

Winners 9,061

R. Fabri, Attard, Malta
E.H. Cooper, Horstead, Norwich
Miss D. Holt, Kirkham, Lancashire
R.J. Owen, Wylde Green, W. Midlands
Norah Taylor, Marple Bridge, Cheshire
Mrs L.A. Williams, Exeter, Devon

Solution 9,061

JOTTER PAD